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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Steps towards convertibility
The Financial Times, London, December 29, 1958, page 1

Effective December 29, as part of a concerted relaxation of European currency policies, the British Treasury has lifted all restrictions on the free transfer of current account sterling held by people living outside the Sterling Area. The official sterling-dollar exchange rate remains at $2.78-2.82. From now on there will be only one variety of externally-held current account sterling and it will be freely convertible into gold or dollars at the official rate of exchange. Exchange control, however, is to be retained. Permission will still be needed to move capital outside the Sterling Area, and overseas holders of sterling assets will still normally be entitled to sell them only for security sterling. The position of Sterling Area residents is not immediately affected. The President of the Board of Trade, however, has already suggested that dollar import controls, which were relaxed in the fall, will be further relaxed during 1959.

An act of bravery?
The Economist, London, January 3, 1959, pages 11-13

The most balanced judgement on sterling's move during the Christmas holidays to convertibility for foreigners is that, given the commitments and conditions which the British Government has accepted in the past six years, and given also last week's peculiar conjecture in Europe, it was an act of almost obligatory bravery; and the immediate advantages can already be seen. This does not mean that it should be regarded as an occasion simply for hanging out the flags without any misgivings.

In any normal circumstances, in a world where the effects of changes of trade policy are reasonably measurable and those of changes in financial policy much more controversially obscure, the Government would have been wiser to choose a different order of priorities in the pound's advance to greater freedom. It would have been better to give priority to easing or abolishing Britain's remaining restrictions on dollar imports and on general tourist travel, before taking this technical and inevitably highly publicized step in the exchange market. A very special conjecture of events was required to justify reversing this order of things.

The de Gaulle Government had become convinced that the only ways to rescue France from its prolonged status as the sick economy of Europe were through a disinflationary Budget and devaluation of the franc. For political reasons the French were eager that their devaluation should be accompanied by a declaration of convertibility for the franc, and it is possible that the Germans would have made this a prerequisite to granting the French their financial support.

The chance thus arose of the concerted realignment of European currencies. It was a realignment involving more risks for Britain than anybody else; but for Britain to have stood aside last week-end would have been to run the risk of plunging all these currencies into disarray and of making the pound look like the least desirable currency in Europe. The grant of convertibility to foreign holders of sterling became a necessary and desirable Christmas contribution to European solidarity. Any misgivings about the eventual implications of the move should be voiced only after giving full recognition to this.

But let it be made clear why there are misgivings. There is no doubt that sterling is at present, and for the short time into the future that it is possible to see, strong enough to sustain the burdens of this sort of convertibility, as well as of the relaxations of some of Britain's own dollar import controls which the Government has indicated will be allowed to follow it. There is equally no doubt that the proclamation of strength is itself a strengthening factor, just as any confession of weakness would have undermined such strength as there is. It is therefore not at all surprising that sterling rides proudly on the immediate morrow of the move. But the new currency system, with convertibility at fixed rates of exchange, is not designed for a few months. It is intended to be permanent. It is only prudent to ask how it is likely to work out in circumstances other than the present; it is in the middle distance that the doubts lurk.

The main meaning of the move is that Britain, as the world's leading short-term banker, will now be more formally committed to take the strain upon its gold reserves whenever any other currency in the world is regarded as temporarily more desirable to hold than sterling. There are bound to be occasions when some will be.

Admittedly, when a banking currency falls temporarily out of esteem, that is the time when the Government must intervene with all the mechanisms available to it in order to smooth out the divergence. Admittedly, events since September 1957 have provided an impressive demonstration of the efficacy of one particularly smoothing mechanism -- high interest rates. But nobody can fully weigh the extent to which the British experience of the past 15 months has been fortified by two elements of quite unusual good luck, namely, the convenient turn in the terms of overseas trade and this past year's unexpected flight from the dollar. Nobody should underestimate the extent to which smoothing out in this country has to be done quickly. And even with the promised increase in quotas of the International Monetary Fund, it is idle to pretend that the level of international reserves which can back up all these banking operations and meet all the possible swings in confidence, is still anything other than inadequate.

It may be, of course, that to voice these misgivings is just another way of saying that Britain is, for better or worse, in the international banking business. It is a firmly held view in the City that all the new convertibility means is that the country has not increased the vulnerability that comes to it through its international banking trade but has simply at last enabled the balance of payments to get greater advantage from it. For many years foreign holders have been able to convert their sterling into dollars in Zürich and other foreign markets at the so-called "transferable rate." Ever since February 1955, the British Government has stood ready to intervene with its own dollars on these markets in order to prevent the discount on this transferable sterling from becoming embarrassingly large. Last week's decision means merely that dealings will be transferred from these foreign markets to London, bringing not inconsiderable profits in foreign exchange to the coffers of the nation. But there are three reservations to be made. Nobody can be quite sure how substantial these are; it is nevertheless by their substance that apprehension or satisfaction about last week's move will be justified in the months ahead.

The first reservation is that there may be some foreign holders of sterling who through old-fashioned scruple, simplicity, or pure ignorance have never made the effort to convert their sterling through the off-white transferable market in Zürich, but who will be more ready to convert it through the official market at future moments of strain. The most efficient City firms insist that they do not know of any such people; it remains to be seen whether this is because their own customers have included only the sophisticates and none of the simpletons, or because the latter really have never existed.

The second reservation is that dealings in the Zürich markets used to be made at a small and "floating" discount below the official rate. After 1955 the British authorities never allowed the elastic in the old transferable rate to stretch very far; they found that once the discount below the official rate widened beyond about 3 per cent, a bear rush started against sterling. But that may be evidence of the difficulty of maintaining a fixed and a floating rate together, not an argument against the efficacy of floating rates as such.

When convertibility was hotly debated between 1952 and 1955, the formula was to be convertibility plus a floating rate for sterling. Whether the risks inherent in the combination were greater than the benefits was always a matter of doubt. But at least the floating rate would have provided some element of flexibility; nothing of this sort is provided by last week's resort to the rigid régime of convertibility at fixed rates.

It is, however, the third reservation which could conceivably become most worrying most soon. Last week's move was on the eve of an election year, when people will soon be talking about the possibility of Britain electing a government that foreign holders of sterling will not like, and one whose leaders have already indicated that they themselves do not like convertibility. Probably Mr. Gaitskell would have been wiser to be more conciliatory to the convertible sterling which he may some day have to manage. But even Labor economists are entitled to say what they think, and Labor politicians have certainly some reason to be apprehensive about finding themselves naked in face of a storm of foreign distrust. The danger that now emerges is that some speculators may think that they had better cash in their sterling at the official rates quickly, for fear of being obliged to accept the old discounted transferable rate if Labor should return and not stand steadfastly behind the new system.

Perhaps all this is too gloomy. The advance to technical convertibility has taken place in concert with Europe and must be regarded as an act of bravery; it cannot reasonably be criticized as merely an act of bravado. Sterling sets sail on a long voyage in a fair weather ship at a moment when the weather forecast is favorable. Let us hope that it will do so for ever. Beneath the happy increased clamor on London's foreign exchange market, the hostages that have been given to the success of this venture are not only the nation's and the Sterling Area's precious gold and dollars, but also the reputation of the Government and the City of London for realism and sagacity.

FRANCE

France frees 90 per cent of trade with OEEC and devalues franc
The Financial Times, London, December 29, 1958, pages 1 and 8 - From Paris

General de Gaulle has announced that France had decided to free from quota restrictions 90 per cent of her trade with other countries of the Organisation for European Economic Cooperation. He said this would "open the floodgates to the currents of world trade and replace France firmly in her international position in the economic field."

The announcement climaxed a week-end in which France underwent her most sweeping economic and monetary reforms since the war. These include: 1) Devaluation of the franc by 17.55 per cent, coupled with non-resident convertibility. 2) A "severe" Budget for 1959, with the suppression of half the existing subsidies in value, fresh taxes, and an unexpected reduction in the Budget deficit. 3) The promise of a new "heavy" franc worth 100 existing francs, which will be introduced gradually over the coming year. Foreign currencies will be quoted at the new rate immediately, i.e., the United States dollar will be equal to 493.706 francs. To bolster up the new franc parity it is expected that the Government will obtain substantial foreign aid.

One big question mark hangs over the Government's decision. What will be the reaction of the trades unions and the labor market? Every devaluation since the war has failed because spiralling internal prices have wiped it out in a few months. On this occasion the Government has taken steps to prevent the pattern from being repeated.

The devaluation itself is 2-3 per cent larger than many experts thought necessary, allowing some room for subsequent inflation. A slack in the economy, three months of price stability, and a restrictionist Budget will weaken the ability of the unions to extract wage increases and of managements to pass on increased costs.

On top of this the Government has tried to reduce the impact of the devaluation by modifying the system by which food and wine prices rise automatically with the cost of living and wages indexes. Against this, devaluation must mean an average increase of 2-3 per cent in manufacturing and costs. This will be augmented by the decision to suppress the subsidies to the nationalized gas, electricity, and rail services, and to increase postal rates and taxes on wine and tobacco.

Consequently, the Government has had to accept a 4-1/2 per cent increase in minimum wage scales and a 4 per cent "across the board" increase in Civil Service pay as from February. It has been laid down that the minimum wage increase should not be based proportionately all the way up the scale. This has always happened in the past and it is not certain that it can be prevented now -- particularly in private industry.

Socialist Ministers were highly displeased by the suppression of subsidies and have threatened resignation. Neither will the rigor of the Budget please M. Soustelle's large New Republican Union, which has campaigned on a policy of expansion and will not be convinced by M. Pinay's protest that his Budget is not deflationary. Here again, however, the moment is not propitious for opposition, either from politicians or trades unions, to policies endorsed by General de Gaulle.

TUNISIA

Tunis frees dinar from franc
The Financial Times, London, December 31, 1958, page 9

On December 30 Tunisia unpegged the dinar from the French franc. Before the franc devaluation, one Tunisian dinar was worth 1,000 francs. The new parity will be one dinar to 1,175 francs, leaving it in the same relation as before to other currencies. (One dinar = $2.38).

GERMANY

The mark freely convertible
The Times, London, December 29, 1958, page 5 - From Bonn

For the first time in 27 years the mark will be freely convertible, effective December 29. All notes, bills of exchange, checks, as well as other forms of payments of all kinds, will in future be free of regulation. Limited convertible accounts for foreign depositors will cease to exist.

Professor Erhard, the Economics Minister, called the recent financial developments a turning point in international economic relations. He hoped that convertibility would end the unhappy quarrels between the Common Market countries and the other members of the Organisation for European Economic Cooperation. Dr. Blessing, President of the Deutsche Bundesbank, stated that convertibility would lead to greater financial discipline.

NETHERLANDS

Dutch limited external convertibility
The Financial Times, London, December 29, 1958, page 8

In conformity with the decision to replace the European Payments Union by the European Monetary Agreement and following the British example, the Dutch Government has introduced convertibility into dollars for balances of non-residents on transferable guilder account at the market rate, which has been fixed at 3.77-3.83 guilders to the dollar. This is a limited external convertibility which only refers to transactions on current account, not to capital transactions.

Dutch foreign exchange controls will for the present be maintained. None the less, the measure is considered an important step towards full convertibility. Dutch banks will henceforth be able to deal in convertible currencies (on current account) to the debit or credit of guilder balances on transferable account. Moreover, balances on current guilder account of non-residents domiciled in a country belonging to the transferable guilder area can be freely transferred to the dollar area. The Dutch banks, in addition, will be allowed to deal freely in dollar and EMA currencies with all foreign banks.

ITALY

Convertibility of the lira
The Times, London, December 29, 1958, pages 5 and 8 - From Rome

Convertibility for the lira, to take effect on December 29, was agreed at a meeting of the Italian Cabinet. The Ministers also approved Presidential decrees introducing tariff reductions of 10 per cent, specified in the Common Market Treaty, which becomes effective on January 1.

Approval was given to several Bills aimed at stimulating production and exports, among them a reduction in the tax on fuel oils and the granting of credits to exporters of certain agricultural products. The whole process of monetary changes in western Europe has in general been received calmly in Rome. It was pointed out that Italy's dollar reserves stand at a level at 2,200 million and that the Italian monetary situation is considered completely satisfactory. The Italian Exchange Control also announced that the lira will be allowed to fluctuate between a minimum rate of 620.50 and a maximum of 629.50 lire to the dollar. Thus the average rate of 625 lire, which was established in 1949 after the devaluation of sterling, is to be maintained. For several years the free rate for the dollar has been in line with the official rate.

SWEDEN

Sweden decides for convertibility
The Times, London, December 29, 1958, page 5 - From Stockholm

A Swedish Foreign Ministry spokesman announced that the Swedish krona was being made convertible. Mr. Per Aasbrink, Governor of the Bank of Sweden, said that the new move applied to current payments, but not to capital payments. The Foreign Ministry spokesman stated that convertibility would apply to everyone in Sweden, which did not distinguish between residents and non-residents.

NORWAY

orway rules out some countries in move to convertibility
he Times, London, December 29, 1958, page 5

An increased convertibility of the Norwegian krone, with effect from December 29, as announced. The adjustment does not apply to countries to which payments have een made on a bilateral basis. Apart from the Soviet bloc, these countries are razil, Israel, Spain, and Yugoslavia.

FINLAND

inland limits freedom of markka
he Financial Times, London, December 31, 1958, page 9

The Finnish markka is now convertible for non-residents, except against the rench franc, the Bank of Finland announced on December 30. French francs are an xception because of the bilateral agreement with France. Convertibility will not pply to capital transfers.

Dr. Reino Rossi of the Board of Directors of the Bank of Finland stated that onvertibility applied to countries with which Finland had multilateral agreements, amely, Austria, the Benelux countries, Denmark, West Germany, Great Britain, Italy, orway, Portugal, Sweden, and Switzerland.

INTERNATIONAL COOPERATION

he European Monetary Agreement
he Economist, London, January 3, 1959, page 57

When Britain and other countries representing more than 50 per cent of the uotas in the European Payments Union notified the Secretary General of the Organiation for European Economic Cooperation that external convertibility had been ntroduced, the EPU automatically ceased to operate and the European Monetary Agreeent came into force.

Under the new regime, payments between European countries will be settled 00 per cent in gold or dollars, in contrast with EPU procedure, whereby 25 per cent f each balance to be settled ranked automatically for credit, received or given. ew arrangements for European credit facilities will be made, but the credit-granting unction is now separated from the clearing function. Provision is made for multiateral (100 per cent) settlement through a monthly clearing; and a close limit is ut on the maximum amount of "interim finance" that central banks are obliged to xtend to other central banks between settlements. Settlements at the clearing, oreover, are to be made not at the middle parity rates, as under EPU, but at the xtreme of the official dealing limits that is most unfavorable to the country, reditor or debtor, that takes the initiative in using the clearing.

The deterrent effect of this rule will presumably mean that very little is put hrough the clearing at all; throughout the 1955 negotiations Britain was in favor f leaving the task of clearing to the market. It is difficult to see how it could e otherwise, given the greater permissible margin of fluctuation in rates. The argins for European currencies quoted against each other were previously at 3/4 per

cent either side of parity, or roughly the same margins as were quoted for them against the United States dollar. Most margins in terms of the dollar remain unchanged.

Now that arbitrage between the dollar and European currencies is permitted, the effective range of fluctuation of the rate between one European currency standing at its upper dollar limit and another standing at its lower dollar limit is 3 per cent. If this doubled range had not been recognized in the official margins for European currencies against each other, and central banks had intervened at an earlier stage, the effect, through arbitrage, would have been to prevent fluctuation against the dollar within the full 1-1/2 per cent swing.

For these reasons, the International Monetary Fund in 1955 made no objection to the 3 per cent swing of European currencies in terms of one another, although this exceeds the 2 per cent maximum (1 per cent either side of parity) stipulated in the Fund agreement. All the European margins, except two, now allow a total swing of 3 per cent. The exceptions are the Swiss franc, whose limits against the dollar are still wide, despite a small adjustment, and produce a swing against sterling of 5 per cent, and the Swedish krona, which now has a very small range of fluctuation against the dollar and therefore needed very little adjustment against sterling.

The main credit facilities under the EMA, besides the interim finance and additional bilateral facilities such as the central bank "swap" credit granted to France, are to be through a new European Fund. This will provide the float that the Bank for International Settlements, the Agent, will need to run the monthly clearing, but its main purpose will be to provide short-term credits, up to two years, to OEEC members in financial need. Although the European Fund will be run by the same international managing board that has run the EPU, decisions on the granting of credits, their terms and on any conditions to be imposed will be taken by the OEEC. As has become the tendency in IMF, credits will probably be granted on merit rather than as of right. But this change does not curtail the amount of credit in European finance. The EPU system has in recent years provided very little credit; and Germany is much more likely to open its coffers under the new arrangements.

As originally devised, the European Fund was to have resources totalling $600 million, some $328 million to come from new contributions from the European members, and the balance from the residual assets of the EPU and from the United States contribution. The amount was to be called only as required. The intention now seems to be to take as a working fund the $113 million that comes automatically from EPU, and to reconsider the basis of contributions in the light of changes since the original negotiations. There are obvious anomalies: for example, Britain's total contribution, at $86.5 million, is more than twice as high as that of Germany.

After the final settlement date in the EPU in mid-January, work can begin on the winding up of the Union. The big creditor is Germany, with a claim of $994 million up to end-November, and the main debtors are France ($476 million) and Britain ($353 million). But arrangements to amortize most of these debts bilaterally have already been made. Britain is paying off about £ 20 million a year; and because the funding arrangements hitherto have provided only for repayments to net creditors, and not for individual repayments due to countries like Britain that are net debtors, the final settlement now due may actually reduce Britain's net annual commitment.

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Economic outlook for 1959 - A year for tax reliefs
The Economist, London, January 3, 1959, pages 29-30

The main economic question which most Britons are asking at the opening of 1959 is how much money the Chancellor is likely to feel able to give away in his Budget in just over three months' time. His beneficence is not likely to be determined mainly by the state of his Exchequer account but by other considerations as well.

The first of these other considerations is that the Chancellor must not release sufficient purchasing power to overstrain the internal economy. That particular consideration should not, fortunately, be very oppressive this year. At the moment Britain is in the middle of a stock recession. The rate of stock-building may recover later in the new year, while consumption would probably be higher in 1959 than in 1958, and total fixed investment, Government current expenditure, and exports might be no lower. At a guess most analysts would probably forecast that even if the Chancellor merely let present policies ride, total demand by the end of 1959 would be running at a rather higher level than now. But current production is still slightly lower than it was at this season three years ago; while fixed investment has been maintained throughout these years at or above a rate which was formerly

providing the capacity for Britain's real national income to expand by some £ 600-700 million a year in terms of today's prices. No doubt, Britain now has a considerable reserve of under-utilized capital equipment.

It would be much too simple to measure this under-utilized capacity by the sum of three years of industrial expansion foregone, adding in another £ 700 million-odd for 1959 itself, and saying that Britain could painlessly increase its production by some £ 2,500-3,000 million in 1959 merely by flogging industry at the rate which the expansionist Mr. Butler allowed in 1955. But perhaps this much succor for analysis can fairly be drawn from the arithmetic of past production: even if the Chancellor were to give away in tax reliefs the whole of his prospective Budget surplus of £ 350 million or so, the country's internal productive capacity would not seem likely to be as excessively strained as it was in past years of bad inflation. It seems probable that other checks on the Chancellor's beneficence will come into play this year before this particular limiting factor of Britain's theoretical maximum capacity to produce need to be taken into account.

Among those other traditional checks is the state of the current balance of payments. Fortunately here too the Chancellor should not need to be too inhibited this year. Britain has just ended 1958 with a balance of payments surplus which was certainly a record and was probably above £ 500 million. It would be prudent to expect some deterioration in this record rate of surplus during 1959. Some £ 280 million of the improvement in the surplus between 1957 and 1958 will have been due to the 8 per cent fall in average import prices. Most people are guessing that import prices will go up again in the new year, although they seem unlikely to go up so fast that the average price level for 1959 will reach the average price level for 1957. Until recently most people had also forecast that the volume of British exports was bound to be considerably lower in the first half of 1959 than it was in the first half of 1958; the remarkable buoyancy of British exports since the end of August has now caused some hopeful second thoughts.

Presumably Britain's volume of imports (which was 2 per cent, or some £ 70 million a year lower in the first eleven months of 1958 than in the same period of 1957) must be expected to rise again in 1959, especially if there is an expansionary Budget and if re-stocking gets going. But against this one can think of many items of net invisible receipts that should improve in 1959. In the overseas Sterling Area, which shares the central gold reserve with Britain, the rate of deficit in the early part of 1959 may well be even larger than in the first half of 1958; on present trends, however, there seem to be grounds for suggesting that it might improve in the second half of the new year.

All in all, therefore, the state of current external payments will not necessarily be a force that is bound to hold a reasonably expansion-minded Chancellor in check. The balance of payments outturn, cynical experience suggests, is now usually a statistic which is worked out by civil servants some three months after the event, and which nearly always proves to differ in important respects from what everybody had been deducing it to be. Bulls and bears of a currency now pay less attention to this late-coming statistic and look out for other things instead.

One of these other things is the course of wage bargaining and of wage inflation in Britain. There is one blot here on the landscape for 1959, in the shape of the committee which is now inquiring into the state of railway wages: both its terms of reference and the method and membership with which it has been set up

suggest that it might recommend a wage increase for railwaymen in spite of British Railways' increased deficit. The effect that any such recommendation could have on foreign confidence in the pound should not be underestimated. But the prospect for reasonable wage stability in 1959 looks less dim than for many years.

This is due in part to the slower recent rate of rise in prices and in part to the dampening effect of slightly higher unemployment, but probably in the main to the political factor of an expected general election in 1959. Mention of the election introduces the main shadow over the economics of the new year. In 1959, unfortunately, political economy seems likely to be more important than the science of public finance. As election approaches, some flight must be expected from Britain's newly convertible pound, if only because many foreign holders of sterling are petrified at the thought of what might follow a Labor victory. Indeed, the great paradox of 1959 is that, while the man in the street assumes that the main factor influencing Mr. Amory towards a Budget of extensive tax reliefs will be his desire to help his party to get back in, the main economic factor in the way of such a Budget may be uncertainty in the exchange market caused by the fear of foreign speculators that his party may not be going to do so.

Despite this, and on balance, the best advice to give to Mr. Amory may be that he should go ahead with tax reliefs; and that he should regard the possibility of a higher Bank Rate as the main weapon to use if pre-election speculation should set in against the pound. It would be imprudent, fully three months in advance, to make any guess at the desirable extent of such reliefs, but there are three points that can already be made about the desirable shape of them. First, there is a better case in Britain at the moment for concentrating most reliefs on income taxes rather than on purchase tax. Secondly, if there are to be any cuts in purchase tax at all, it might be better to announce them this month or next, rather than to wait until April. Thirdly, there are sound arguments for being generous this year in refurbishing allowances designed to stimulate investment. Admittedly experience suggests that these give their main fillip a full year after their introduction; but it may well be that under-utilization of capacity in the heavy industries that produce capital goods may last through until then. This is a point which emerges from a study of the trends in individual British industries.

SOUTH AFRICA

Bank Rate cut to 4 per cent
The Times, London, January 6, 1959, page 14

Effective January 5, the South African Bank Rate was lowered by one-half per cent to 4 per cent, the level at which it stood between March 1952 and September 1955, it was announced by the Governor of the South African Reserve Bank, Dr. M. de Kock. He said that in arriving at the decision to lower the Rate, the Reserve Bank had been influenced by several circumstances.

"In the first place available data indicate not only the existence of appreciable slackness in several of our primary and secondary industries, but also a continued slowing-down in the tempo of general economic activity in South Africa.... The Reserve Bank has also been influenced by the fact that the Bank of England reduced its Bank Rate to 4 per cent on November 20 which has brought about a further decline in interest rates in the London money market and to some extent also in the market for gilt-edged securities."

AUSTRALIA

Long-term growth prospects
The Times, London, December 12, 1958, page 18

With the election producing the expected results, the possibility of nationalization in Australia has receded again. That the issue was never in serious doubt may be judged from Australia's stock markets where levels barely wavered throughout the course of the campaign. As with most countries, political risk has to be taken into account in investment in Australia, but so far as these factors can be placed in the balance the attractions of long-term economic growth are sufficient to outweigh the risks. In view of the immediate problems arising from the fall in the price of wool it is emphasized that prospects are for long-term growth. Even so, the country's reserves are still relatively strong and industrial expansion has not so far been checked. Should the adverse balance of payments continue and compel the Government to intensify import restrictions, the trend towards displacement of imports by home production will receive added stimulus. It is recognized, however, that competition from imports serves to keep uneconomic, high-cost domestic production in check, and new import restrictions must be regarded as a retrograde step.

The main factors making for growth are the rate of population increase, abundant natural resources, the high level of physical investment, and a government policy clearly aimed at continued expansion. Factory production has increased at an average rate of 6 per cent per annum over the past ten years, and the indications are that Australia's population will increase from its present level of 10 million to 13 million in 1970. Given this kind of situation, nearly every industry must be regarded as a growth industry, an impression borne out by the movement of security prices over recent years. Yet although the market appears exceptionally strong at current levels, the factors making for strength are similar to those in Britain and the United States. The steady flow of funds into the major savings institutions creates a constant demand for high quality stocks, and so long as more money is channelled into the market than can be absorbed by new issues, share prices must rise.

Government policy is to encourage the flow of investment from abroad and although there is no guarantee that funds can be freely repatriated, in practice consent is rarely, if ever, withheld. There is already a substantial flow of funds into the country, and now that Australia's trade unions are less militant there appears to be a greater willingness on the part of British and United States residents to invest in Australian shares. For the most part purchases have been concentrated upon the more marketable leaders available on both the London and the Australian registers.

In evaluating the performance of Australian companies there is a lack of uniformity in the presentation of accounts; requirements vary from state to state. Although there are still regrettable omissions, the amount of information given is increasing. Australian companies are taxed at a level averaging around 7s. in the pound. Earnings and dividends are shown net of tax, allowing for comparisons with yields in other countries. In this connection it will be found that earnings cover is very much less in Australia, a higher proportion of expansion being financed by rights issues rather than retained earnings. Rights issues on bonus terms have been a major source of increment to the equity holder.

BELGIUM

Belgium cuts discount rates
The Financial Times, London, January 8, 1959, page 1 - From Brussels

The Belgian National Bank has announced a further cut of 1/4 per cent in its discount rates, effective January 8. This reduces the principal rate, that for approved bills payable at a bank, to 3-1/4 per cent.

The reduction was not unexpected. The growing liquidity in the money market has in recent weeks been spreading from Government funds into industrial shares. The banks report that during the present industrial recession the demand for credit is insufficient to absorb the funds available. There is, however, a general feeling that industrial conditions are more likely to grow better than worse, and a reduction in interest rates may prove the needed stimulus.

DENMARK

Straight course for Danish economy
The Economist, London, December 20, 1958, page 1093

Experts from the International Bank for Reconstruction and Development have been in Denmark investigating the country's economy. Their visit was the result of a request from the Danish Government for a loan to finance electricity works and the purchase of railway engines. Part of the loan may be floated on the New York market; the advantage of this would be that the money would be available for any purpose, whereas capital obtained from the Bank's own resources is granted for limited and specific purposes.

As most other European countries, Denmark has lately enjoyed an improvement in its foreign currency situation. One reason for this is the fall in world prices of raw materials. But this is only part of the explanation. In June 1957 the foreign payments position was so critical that Denmark had to draw a considerable sum from the International Monetary Fund. To restore equilibrium, a number of indirect taxes were raised and a compulsory loan was introduced. These measures were intended to cut down consumption and general activity to a level corresponding to the country's reserves.

Since then, the external financial position has improved so much that in the last few months some relaxation in the austerity measures has been possible. Bank rate has been lowered twice during the last nine months -- a demonstration by the Bank of Denmark that credit need not be so tight as before -- and the commercial banks have launched a scheme of personal loans for "useful purposes" among bona fide customers.

A tragic feature of the Danish economy is high unemployment. Even if employment figures cannot be compared directly with those of other countries (partly because only organized labor is counted), a percentage of 10 or 12 unemployed must be considered high. During the last 35 years unemployment has only once come down to 8 per cent. On that occasion, in 1954, the reduction ended in a severe currency crisis. Schemes for creating more employment have been put forward from time to time to apply to certain depressed areas in the peninsula of Jutland. These districts contain pockets of unemployment that originated in the expansion of employ-

ment during the war years. A bill was recently passed allowing government loans and guarantees to be given to projects for which finance cannot be raised from other sources. Although this initiative may seem admirable, the idea came under severe fire from the opposition benches. Earlier, government spokesmen had urged the commercial banks to show more pioneering spirit, at a time when credit restrictions were imposed upon the banks themselves. Now that it is more possible to extend advances, the Minister of Labor does not seem to appreciate private efforts. The banks will continue their practice of granting loans for purposes which they consider sound; more risky and adventurous projects will now be sure of a second hearing from the Government.

The question is being asked whether this sort of State subsidizing will not lead to the creation of inefficient industries, since the establishment of factories in remote regions may result in higher manufacturing and delivery costs. There is also a second limitation to the possibilities of regional industrial development. Employment policy in the country as a whole is limited by the foreign exchange position and this in turn is affected by the level of labor costs. Accordingly, the scope of raising employment in the depressed areas is rather small; for experience shows that employment cannot improve much without prompting trade union demands for higher wages. If the demands are satisfied, they soon spread to regions with higher employment. Unless trade union leaders dare tell the rank and file that they themselves are responsible for the economy, including, in effect, how many of their mates are to be unemployed, the high-sounding plans for developing the Danish economy are doomed to be short-lived.

U. S. S. R.

The 1959 Budget
The Financial Times, London, December 23, 1958, page 5

Mr. A. G. Zverev, the Soviet Minister of Finance, presented his Budget for 1959 at the meeting of the Supreme Soviet in Moscow. Total Budget estimates show revenue at 722,700 million rubles ($180,675 million at the official rate of 4 rubles per dollar) and expenditure at 707,200 million. These estimates include an 11 per cent increase in the financing of industry.

Mr. Zverev stated that capital investment would increase to the greatest extent in the ferrous metallurgy (a 32 per cent rise), the chemical (up by 71 per cent), the oil and gas (a 23 per cent increase), and machine building industries (33 per cent higher). Defense spending in 1959, the Minister announced, would be down by 200 million rubles from the 1958 level of 96,300 million rubles.

It has become a matter of form in the past years for the Soviet Minister of Finance, when presenting his Budget to the Supreme Soviet, to talk at some length of his Government's defense spending policy. This year he spoke of the figures as reflecting "the peaceful policy of the Soviet State." A great deal of attention should not be paid to these figures. It is almost certain that further defense estimates are tucked away in other Budget items.

What should, however, engage the attention of the West far more are Mr. Zverev's statements on increasing investments in the sectors of science and education. The draft estimates for 1958 in science were 18,200 million rubles. In actual fact, appropriations during 1958 reached 23,900 million rubles, and the estimates for

1959 have been given as 27,300 million. Similarly, expenditure on education in 1959 is scheduled to reach 94,300 million rubles, compared with 59,800 million in 1958. The resources placed at the disposal of Soviet scientists, both in training and at the advanced stages of research, have for some time made them the envy of their foreign colleagues, and clearly there is to be no easing up in this.

The proportions of investment in producer goods and consumer goods show little change. This is no surprise, since Mr. Khrushchev's statement in November on the new Seven-Year Plan, which is to extend from 1959 to 1965, again insisted on the priority to be given to heavy industry as the basis of all branches of the economy. Mr. Khrushchev has other objectives at the moment. One of his schemes, which was introduced this year -- and was the subject of an intensive press campaign -- concerned the development of the Soviet chemical industry. The Budget provision for this drive can be seen in Mr. Zverev's speech. Capital investment is to increase to the greatest extent in ferrous metallurgy and the oil and gas industry, besides the chemical industry itself. The first two industries are to provide the chemical industry's raw materials. Similarly, the Soviet drive to step up the application of automation and mechanization in industry -- a necessity because Soviet industry is now facing the results of the sharp fall in the birth rate during the war years -- has called for increased investment in machine building.

POLAND

Price reductions
The Times, London, December 15, 1958, page 6 - From Vienna

Price cuts in a limited range of consumer goods, mostly artificial fibers, were announced in Warsaw. It was estimated that they will save the country's consumers 1,200 million zlotys a year ($300 million at the official rate of 4 zlotys per U.S. dollar). On the other hand, a 50 per cent increase in the price of glass, porcelain, and similar products, described as "deficit" goods, which is also announced, will cost them 250 million zlotys.

Among articles made cheaper are Soviet-made bicycles (cut by 24 per cent), Soviet-made watches (cut by 20 per cent), imported cameras (mostly East-German), raincoats, Chinese silk, and imported artificial fiber and wool products (all cut by 30 per cent), East European-made nylon (20 per cent), and Brazilian coffee (10 per cent).

The cuts, the timing of which during the Christmas shopping season is evidently meant to please the public, must be seen against the background of Mr. Gomulka's pledge in 1956 to raise the low living standards by 30 per cent by the end of the current Five-Year Plan, in 1960. It is claimed that so far a 17 per cent increase has been achieved, and that if there is no lessening of effort Mr. Gomulka's goal is attainable.

The president of the Government price commission denied rumors in connection with the proposed readjustment of the price-wage structure -- of which the price cuts are presumably also part -- that rents, electricity, and other services are about to be raised. This suggests that public confidence in the Government's declared intention to cheapen living is by no means complete.

ARGENTINA

Program of austerity
The Times, London, December 31, 1958, page 7 - From Buenos Aires

Described as a way of escape from one of the gravest hours of the nation's history, President Frondizi's plan for the stabilization of the Argentine economy was made known to the nation. It imposes severe austerity on Government and people and marks not only a revolution in the country's economic policy, but a precipitate flight from the policies proclaimed by the President during virtually the whole of his political career.

The passing of the old year is to bring to an end the system of quotas, import permits, and other obstacles to the import trade. However, imports regarded as non-essentials are to be taxed up to 300 per cent of their value. Importers will also be required to make substantial deposits -- in reality forced loans -- to cover the value of merchandise imported. Exports will also be free, but the Government will retain 10-20 per cent of the money received from exports.

Concurrent with this freedom of trade, the system of several exchange rates comes to an end. The peso will find its own level and the central bank will intervene only to maintain relative stability. Credit will be restricted and confined to production and not to speculation or usury.

Internal prices of commodities will enjoy a free market except in the case of a limited number of articles of prime necessity, the prices of which will be controlled. All subsidies are to cease; this will lead to some rise in prices, especially for petroleum products.

Deficits in the operation of State enterprises are to end; the public will be expected to meet the cost of operation. This will mean an immediate increase of 50-60 per cent in railway rates and fares and 100 per cent for the Buenos Aires subway. Taxation is to be increased and greater efforts are to be made to reduce tax evasion. Meat will be scarce.

All these measures will fail to solve the crisis unless something is done to reduce expenditure on the inflated bureaucracy. Dr. Frondizi pointed out that 80 per cent of the national revenue was used to pay national, provincial, and municipal employees who, with their families, represented 33 per cent of the country's population. "That explains why there is not the money for housing, roads, schools, or even to repair the paving, or light the darkened streets," he said. The bureaucrats are to be eased out, many will be compelled to take pensions, and no vacancies are to be filled.

With the measures announced are allied the rapid development of the nation's petroleum, coal, and other mineral reserves, the creation of a steel industry, a big increase in electric power supply, and an intensification of exports. Dr. Frondizi believes that the whole economic face of Argentina can be changed and in about two years a new era can begin. The development plans are to be financed in part by foreign aid.

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FRANCE

France's Christmas reckoning - By the Paris Correspondent
The Economist, London, January 3, 1959, pages 49-50

The days after Christmas brought, in quick succession, the news of devaluation, drastic cuts in subsidies, and higher prices and taxes. The Press at first tried to minimize the impact. It laid emphasis on the projected currency reform, on the new "heavy" franc, and put the blame for devaluation on the designs of the perfidious English. But the veil was rapidly lifted. General de Gaulle exhorted the nation to great efforts, telling it that the heavy sacrifices were designed to achieve national greatness through financial recovery and price stability.

Many interconnected measures have been introduced at once. The Budget, with its cuts in subsidies, would in itself have resulted in price increases and widened the gap between French and European prices on the very eve of the inauguration of the Common Market. On the other hand, the French Government decided to devalue the franc, reducing it to the rate of 493.706 francs per dollar. This, in turn, enabled

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France to join Britain, Germany, and other European countries in their venture towards partial convertibility. It also allowed the French to liberalize their trade with members of the Organisation for European Economic Cooperation to the stipulated 90 per cent. It must be remembered that this lifting of quotas refers to nine-tenths of trade in 1948. Nevertheless, by fulfilling its commitments to the full, France has deprived the British Government of a powerful argument in the Common Market controversy.

All the changes are linked. The need for change, however, springs from the state of the home economy. France has been living above its means on an increasing scale. Budgetary expenditure simply carried forward would have raised expenditure estimates by about 900 billion francs between 1958 and 1959. The defense estimates alone, at 1,576 billion francs, are 250 billion higher than last year. The over-all deficit was expected to reach nearly 1,200 billion francs. In France, this balance is struck after including the Government's outgoings on capital account. Even so, the impasse had to be halved to keep it within the limits of borrowing capacity. The Government is unwilling to cut its commitments, including those in North Africa, and the country must therefore pay the bill through reduced home consumption. Inflation could not veil this fact indefinitely. The Government was not hampered by parliamentary control since it enjoys the special powers -- granted last June -- that still allow it to promulgate the Budget by decree.

The experts' search for budgetary savings brought to light a coherent change in the ideas that govern French economic and fiscal policy. The draftsmen of the new Budget have been inspired by the gospel of economic liberalism. They have made a bonfire of subsidies, compelled the nationalized industries to bring their prices in line with their costs, and deprived agriculture of some of its special advantages. They have abolished all automatic sliding scales that relate wage levels to the cost of living, and have kept only the basic national minimum wage. The maze of purchase tax is reduced to four rates. State investments are not reduced, but the hope has been expressed that private saving should soon be able to take over. The general argument is that liberalization of foreign trade cannot be accomplished with a distorted price mechanism at home. Faith is put in market forces. Increased competition is to guide the modernization of the French economy through the survival of the fittest.

In practice, 255 billion francs are saved through cuts in subsidies. The net revenue from increased taxation is expected to yield 200 billion francs. To this should be added a saving of some 60 billion francs on social security, more than half of it coming from a cut in the national health bill. Total expenditure is 6,189 billion francs ($12,536 million) and revenue 5,602 billion. The Treasury will thus have to find less than 600 billion francs and M. Pinay stressed that this is less than the State lending for productive investment. State investments are actually increased, though the figure quoted is somewhat inflated by taking into the Budget medium-term loans hitherto granted by the Bank of France. Investment in Algeria is also included. It remains to be seen whether the investments will prove enough to stimulate a revival in industrial production, or whether France will be willing to pay in stagnation the price of stability.

Financial stability is obviously the aim. The new "heavy" franc is to be the symbol of national confidence in the financial orthodoxy of the new régime. Partial convertibility, it is hoped, will attract foreign capital. The great dream of the experts, however, is to get at the gold and dollar hoardings of the French themselves; these are estimated at the fabulous amount of $10,000 million. One task

will be to keep the increase in the home price level within the limits of 5-10 per cent. Devaluation will raise the price of imported raw materials. Coal prices are going up by 11 per cent; transport, gas, and electricity will cost more. Will these production costs be translated into higher prices all around? The Government relies on the general state of business and the fear of foreign competition to keep profit margins in check.

The other unknown factor is the price of labor. This austerity budget will hit the lower income groups hardest. Wages and salaries of public employees are to be increased by 4 per cent in February. Together with the increase in old age pensions, this will cost 65 billion francs. The increase of 4-1/2 per cent in the guaranteed minimum wage should cost somewhat less. Even those who get the benefit of this improvement will argue that it barely compensates for existing postponed claims. All the trade unions have expressed their misgivings. The Government has to rely on General de Gaulle's prestige, the absence of parliamentary pressure, the fear of recession, and the undecided mood of organized labor in the new political climate.

The French have made their choice; thrice in succession they have voted for General de Gaulle. Internally, France begins its new operation with a certain cushion. Its own gold and dollar reserves are low, but its European neighbors, led by Germany and Britain, have promised their backing. Frenchmen are told to tighten their belts and wait for the benefits of stability. Since production is expected to remain stable this year, the cut in home consumption foreshadowed by the new measures is substantial. Having willed the man, and presumably his ends, will the French people accept the means? The answer will not be found in parliamentary debate. Not only the fate of the new franc, but the political future of the new régime, may hang on a forthcoming trial of strength between the General's Government and the unions.

GERMANY

Bank Rate cut from 3 per cent to 2-3/4 per cent
The Financial Times, London, January 10, 1959, page 1 - From Frankfurt

The West German Bank Rate was cut, effective January 9, from 3 per cent to 2-3/4 per cent. This is the lowest discount rate ever known in Germany since the first central bank for Germany was founded in 1879. At the same time, the Central Banking Council reduced the interest rates for bills and bonds. The Council is not thought to have been guided by any wish to stimulate an expansion of business, even though the latest figures show a reduction in the number of new orders received by industry.

The Deutsche Bundesbank made no statement on the reasons for reducing the rates. The move, however, continues the Bank's policy of reducing interest rates in Germany as a means of furthering capital exports and encouraging the flow abroad of short-term funds. German banks are reported to have placed on the London, New York, and Montreal money markets several million marks since the beginning of this year. The total of such funds placed abroad is estimated at more than $112 million.

Professor Erhard, Minister of Economics, welcomed the Council's decision. He told reporters that the lowering of the discount rate would help to overcome any difficulties which might have been caused by the advent of convertibility.

NORWAY

Credit policy
The Financial Times, London, December 16, 1958, page 5 - From Oslo

The tight credit policy followed by Norwegian banks since the fall of 1955, at the Government's request, will be eased in 1959. This was revealed by Mr. Erik Brofoss, Governor of the Bank of Norway, in a recent statement about next year's credit agreement. Although he was unwilling to give any details about the new agreement, between the banks and insurance companies on the one hand and the Bank of Norway and the Ministry of Finance on the other, Mr. Brofoss said it would give the banks greater scope to dispose of their funds as they saw fit. The new agreement will be discussed by representatives of the banks and the authorities at a forthcoming meeting. It will take effect on January 1, 1959.

SWITZERLAND

Swiss economic policy
Neue Zürcher Zeitung, Zürich, November 27, 1958, section 7 (in German)

Dr. W. Schwegler, Chairman of the Board of Directors of the Swiss National Bank, in a speech -- translated in part below -- given before the Society for Statistics and Political Economy in Basel, emphasized that the monetary and financial policies pursued by the Swiss authorities could be considered one of the chief factors in checking boom conditions. He stated that the aim of the authorities had been to accumulate budget surpluses during boom years; but from 1954-56 they refused to let these surpluses be utilized for the redemption of the national debt. At the end of 1956 these funds, after certain deductions, amounted to 1.1 billion francs ($256 million).

In addition, the Swiss National Bank took steps to check monetary expansion. In 1955 gold coins were released to the market in order to absorb surplus funds. Also in 1955 minimum reserve requirements were set up for banks, insurance companies, and the Old Age and Pension Fund. At that time an agreement with the banks restricted the inflow of foreign funds, and the National Bank tightened its credit policy and finally admonished the banking system to restrict its credit activities. Since 1951 there has existed an accord among banks, insurance companies, many pension funds, federal, state, and public funds to restrict credits for construction. Finally in May 1957, the official discount rate was raised from 1-1/2 per cent to 2-1/2 per cent. These measures achieved the desired effect; under their impact the rate of economic expansion began to decelerate in the second half of 1957. It must be emphasized that in Switzerland, as in other countries, the transition from an over-expanded economy to more normal economic growth did not proceed abruptly or precipitately, but in an orderly manner.

The moderate rise in interest rates did not produce dangerous conditions in the price level (as had been predicted). Price increases were restricted to certain sectors and even there were moderate ones. The increase in interest rates and the lack of capital made speculation in real estate well nigh impossible. It may be said that, generally speaking and viewed in the light of these developments, the Swiss economy profited from its emergence from excessive boom conditions.

A peculiar characteristic of deceleration in economic activity was the fact that monetary measures increasingly acted as a stimulant as the recession became

more pronounced. It was a surprise to many that first the short-term money market, and then the medium- and long-term markets attained a continuous liquidity. The rapid shift on the markets gave rise to arguments that a sizeable increase in interest rates had been sufficient to bring out capital from its many hiding places. What happened in reality was nothing more than that the economy itself created capital movements which arose in accordance with natural laws of economic development. The most important reasons for the liquidity in the market were the following:

1) The renewed formation of surpluses in the international balance of current accounts, mainly as a result of a sharp decrease in the adverse trade balance, resulting in an inflow of foreign exchange to the National Bank; correspondingly, the Bank was obliged to issue francs. 2) Repatriation of Swiss capital from abroad, particularly from the United States, because interest rates there were lower than in Switzerland. 3) Liquidation of stocks and in this connection repayment of bank loans. 4) Reduced demands for credit with the banks, thus creating more liquidity in these institutions. 5) Inflow of foreign funds. 6) Stimulation of savings activity rather than consumer activity and a certain slight de-hoarding of bank notes. 7) A considerable contribution to the liquidity of the market was the repayment of the Federal debt in the amount of 668 million francs in 1957 and 530 million in 1958. The authorities thus supported vigorously the mortgage market and the construction industries in 1957 and permitted credit relaxations to take place in 1958.

As it became evident that the recession in the United States and in Europe was affecting the Swiss export industries more strongly and as building activity decreased, the National Bank decided to make a change in its policy. During the summer and at the end of 1957 it relaxed its restrictive measures, and in March 1958 it rescinded them. Viewed in the light of subsequent developments, the step was taken at the right time. The Bank was fully aware of the fact that through the continuous creation of money, which resulted in an increase of 1.1 billion francs in its gold and foreign exchange reserves, new, potentially inflationary, forces were being created. But the Bank considered these dangers to be less serious than those which threatened further increases in mortgage interest rates in the summer of 1958. The new credit policy achieved its purpose. The mortgage market calmed down. The banks, accepting the new market policy of the National Bank in a cooperative spirit (even though they had to make sacrifices), contributed immeasurably to the effectiveness of that policy.

At the end of summer 1958 the Bank found it necessary to direct its attention to the problem of the exceedingly strong increase in market liquidity which, it was feared, might lead to a new boom in the construction industries and to further inflationary price increases. This was one of the reasons why the Bank, after two years, reopened the Swiss loan market to foreign borrowers. In this way surplus funds were channelled away from the Swiss market, and the readmission of foreign loans gave support to the economy in general and to the export activities in particular.

In future, too, the National Bank intends to follow the principle of a flexible cyclical policy in order to maintain economic equilibrium and a stable currency. In the pursuit of this aim the banks also play an increasingly important role. They are in a position to regulate their credit activities in such a manner as to prevent investments from assuming excessive proportions and they can keep them in line with the requirements of healthy growth and a strong currency. It is to be hoped that the experiences of the last few years will serve as a reminder in this respect.

The public authorities, too, can and should make a significant contribution to a balanced economic policy. The current trend toward rising budgetary deficits in communities and States, however, does not point in this direction. If there is need to cover these deficits by repeated recourse to the capital market, undesirable and disadvantageous demands on the market may arise just at a time when the economy is accelerating.

In order to maintain cyclical balance, it is absolutely necessary to prevent domestic price and cost increases which result in the loss of purchasing power. Therefore not only a flexible price and wage policy is needed but also wise restraints in wage demands and a reasonable policy and its practical application regarding the shortening of the workweek.

In evaluating the economic problems in Switzerland, Dr. Schwegler concluded, the Swiss must take into consideration that they are living in a world of ever-hardening international competition, and that the Swiss export industry is facing uncertain times because of trade discrimination and the economic splitting up of Europe. In every sector of the Swiss economy, therefore, increased understanding of economic relationships and a distinct sense of responsibility are needed if the Swiss people are to maintain a prospering economy for many future years.

GREECE

Interest rates lowered
The Financial Times, London, December 18, 1958, page 9

Interest on deposits and bank rates on loans will be lowered as of January 1, following a decision of the Greek Government's Currency Committee. The reductions range between 0.5 and 1 per cent.

Deposits in banks up to December 31, 1958, will benefit from the former interest rates until the end of March 1959. Rates on bank loans to exporters, tobacco merchants, and industries are reduced by 1 per cent. A statement explained that the reduction followed a rise in bank deposits and an improvement in the general economic situation.

HUNGARY

Economic plan for 1959
Neue Zürcher Zeitung, Zürich, December 13, 1958, section 8 (in German)

The Director of the Hungarian Planning Bureau, Mr. Arpad Kiss, at a Press conference discussed some phases of the Hungarian economic plan for 1959, which had been adopted at a recent session by the Communist Central Committee. According to this plan, State investment which, under the current 3-year plan is budgeted with 2.2 billion forint, will be increased to 13.1 billion ($1.1 billion at the official rate of 11.74 forint per dollar). Investment by small private businesses and collective farms will raise this figure to 14.7 billion forint in 1959, the highest figure for the last five or six years. It is understood that at this rate the standard of living must remain at its present level.

The plan envisages an increase of 4 per cent in real income (this figure must be regarded as fictitious). Residential construction is to be accelerated; 13,350

dwellings are to be built with State funds, 14,700 with funds and credits from State savings banks, and 13,000 with private funds of the farm population. Mr. Kiss emphasized that in the coming year Hungary's economic program would have to be financed chiefly out of the country's own resources.

It is interesting to note references to the "structural changes" in the Hungarian industry which are apparently taking place within the framework of all-over planning for the entire East bloc. In particular the chemical industry is to be developed with special emphasis on organic and pharmaceutical chemistry. Special attention is also to be given to the manufacture of high-tension products and to communication apparatus. Heavy industry, however, is not mentioned as being in first place.

YUGOSLAVIA

Budget for 1959
The Financial Times, London, December 27, 1958, page 7

The Yugoslav Parliament has approved the State Budget for 1959, which balances expenditure and income at 392,950 million dinars ($1.3 billion) and which is 12.5 per cent higher than the Budget for 1958. Defense expenditure remains the biggest single item of the Budget.

NEW ZEALAND

Easier hire-purchase
The Financial Times, London, December 24, 1958, page 7 - From Wellington

The New Zealand Government has relaxed hire-purchase controls on a number of items, including domestic appliances, farm and earth moving machinery, and fishing craft. Minimum deposits in most cases are reduced from 10 per cent to 7-1/2 per cent, and the maximum credit period is extended from 18 to 24 months. The relaxation follows prolonged negotiations between retailers and the Government.

Announcing the relaxation of hire-purchase controls, Mr. Holloway, Industries and Commerce Minister, said there had been a reduction in hire-purchase trading in the past few months. The Government was satisfied that control could be relaxed to give traders flexibility. He added that further changes would be made as circumstances permitted.

JAPAN

Budget for 1959 approved
The Financial Times, London, January 1, 1959, page 12

The Japanese Cabinet has approved the 1959 Budget, which includes provisions for substantial increases in funds for economic expansion, and income tax reductions. The Government fixed the total of the fiscal 1959 Budget at 1,419,248 million yen ($3,942 million), an increase of 107,117 million over the previous year. A sum of 32,340 million yen has been set aside for the payment of Japan's war reparations, or 6,147 million more than last year. The Cabinet also approved the fiscal 1959 investment and loan program, calling for a total outlay of 519,800 million yen, an increase of 120,300 million.

Metric system for Japan
The Times, London, January 3, 1959, page 10

Inches, feet, yards, ounces, and pounds, with their Japanese equivalents, have been replaced by the metric system under a new law. The metric system was made obligatory by a law passed in 1921, but the period of grace for its compulsory use was extended until December 31, 1958.

VENEZUELA

Refusal to review tax increase decision
The Financial Times, London, December 27, 1958, page 5

A suggestion by the Creole Petroleum Corporation, affiliate of Standard Oil (New Jersey) and the largest oil producer in Venezuela, that the Government should reconsider its new income tax law has been formally rejected, it is announced in Caracas. The law, promulgated on December 19, would raise the Government's share of oil companies' profits from 50 per cent to 60 per cent. The law affects all incomes and is retroactive to last January.

A spokesman for the Creole Petroleum Corporation said that the new tax decree would discourage further investment in Venezuela on the part of his company. He also stated that it put his firm in an unfavorable competitive position and that he doubted whether it would raise as much revenue for the Venezuelan Government as would a 50 per cent tax.

SHORT NOTES ON CURRENT ARTICLES

Benelux: Results and problems in the commercial and financial sectors - By Baron C. D. A. van Lynden
National Bank of Belgium, Brussels, Bulletin d'Information et de Documentation, October 1958, pages 241-250 (in French). Baron van Lynden, who is the Secretary-General of the Benelux Customs Union, gives a brief historical perspective of economic relations among the three countries and then examines in detail the results and problems arising from the exchange of goods, services, and capital. Integration in the commercial field has shown gratifying results and has brought about a larger volume of transactions among the three countries without prejudice to commerce with other countries. Some problems, however, still remain to be solved. The writer discusses these problems with special reference to budgetary policy, balance of payments, and foreign exchange policy. He compares the budgetary structures of the three countries and believes much would be gained if efforts were made to combat excessive increases in expenditures which later only call for restrictive measures. Coordination of monetary and fiscal policy would contribute considerably toward the goal of attaining complete integration. [The article also contains many tables giving comparative figures for the countries under discussion.]

American investment in Israel
The Israel Economist, Jerusalem, November 1958, Supplement, pages 179-194. Financial experts, an Ambassador, and prominent businessmen in six brief articles describe and evaluate the contribution the United States has made, by making available public and private funds, in assisting Israel in its struggle for economic self-sufficiency.

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GERMANY

Full convertibility for the mark
The Financial Times, London, January 13, 1959, pages 8 and 9

On January 12 West Germany made the mark fully convertible by lifting all restrictions on the purchase of foreign currencies by German residents. Abolition of restrictions came two weeks after Britain and other West European nations had made their currencies freely convertible for non-residents. West Germans can now buy any amount they wish of any foreign currency, including dollars, in bank notes, coins, checks, or travellers' checks. Residents may open foreign currency accounts abroad and keep foreign exchange in their homes or in German bank accounts without being obliged to offer them for sale.

The step had the official blessing of the Economics Ministry and was announced by the Bundesbank, yet the liberalization measures do little more than give formal recognition to an existing situation. In fact, the Deutsche mark has for practical

purposes already been convertible for residents and non-residents alike for some time. Some restrictions are still to be retained, and the net effect of the liberalization will be to save a certain amount of form-filling. Germany's currency will still not be "fully convertible" within the meaning of Article VIII of the Articles of Agreement of the International Monetary Fund, and Germany will continue to treat imports from dollar sources and from member countries of the Organisation for European Economic Cooperation on a different basis. Thus the latest operation is primarily a tidying-up exercise, but anything which makes one of the world's major currencies more freely usable is to be welcomed and this is yet another move in that direction.

For a number of years Germany was amassing reserves, while other European countries were in balance of payments difficulties. While it is true that the export achievements of Germany's industries were the major factor in this development, the restrictive monetary policy pursued by the authorities was an important contributory reason. In the past year, however, a most desirable change has been noticeable. Germany realized that the Deutsche mark had become a "scarce" currency, even though not in the technical IMF sense. Interest rates have been falling steadily, and as a result capital exports have been rising. In September 1958, Anglo-American became the first foreign company to raise funds on the German capital market since before the First World War.

On January 9 the German Bank Rate was cut again from 3 per cent to 2-3/4 per cent. The move was designed to facilitate the flow of short-term funds abroad. The question remains whether an outflow of short-term funds by itself is enough. The domestic capital market in Germany is still operating at interest rate levels which are high enough to attract funds from the outside world, while producing little inducement to Germans to indulge in long-term investment abroad. And as long as Germany maintains her restrictions on agricultural imports -- soon to be discussed again by the General Agreement on Tariffs and Trade -- it will still be difficult for the food-producing countries to earn Deutsche marks which they need to finance their purchases from Germany.

These reservations, however, should not prevent recognition of the fact that Germany has gone a long way towards pursuing policies appropriate to a creditor country. Now that the majority of European nations have introduced convertibility for non-residents, it is all the more essential that Germany should not once more become a magnet for "hot" money.

BELGIUM

Belgium to budget for a deficit
The Times, London, January 3, 1959, page 5 - From Brussels

The Budget proposals for 1959, which have been circulated to Belgian members of Parliament, estimate ordinary receipts at 101,879 million francs ($2,037.6 million) and expenditures at 106,875 million. The extraordinary Budget puts receipts at 698,200,000 francs and expenditure at about 20,000 million. An accompanying statement says that the Government has to face a deficit because a program of economic rehabilitation must be urgently carried out to fight unemployment and prepare for the return of industrial prosperity. When the recession is over, the deficit should be absorbed. Meanwhile an effort is being made to put the State finances in order.

NETHERLANDS

Bank Rate cut to 2-3/4 per cent
The Financial Times, London, January 21, 1959, page 5

The Netherlands Bank announced a cut in its discount rate from 3 per cent to 2-3/4 per cent, effective January 21. In addition to the Bank Rate reduction, all other charges are also to be cut by 1/4 per cent. The Bank explained that the reduction is due to the continued firm position of the Dutch guilder in the international exchange market after the introduction of the European Monetary Agreement and the consequent rise in foreign exchange volume and easier conditions on the money market. The reduction had been expected in the market.

SWEDEN

Budget foresees higher taxes
The Financial Times, London, January 13, 1959, page 5

New indirect taxation to increase Sweden's revenues by between 500 and 1,000 million kronor was envisaged by the Finance Minister, Mr. Strång, when he presented the new Budget to the Diet. Revenue during Budget year, which begins on July 1, was estimated at 12,896 million kronor ($2,493 million), and expenditure at 13,495 million. Mr. Strång did not make any definite proposals for raising revenue. He suggested the problem be postponed until the spring when the economic situation would be clearer.

INDIA

Use and abuse of foreign aid
The Economic Weekly, Bombay, November 29, 1958, pages 1473-1474

The foreign aid that has been made available for the Second Five-Year Plan, according to a statement by the Finance Minister, makes indeed a very impressive showing; it adds up to a total of about Rs. 945 crores ($1,985 million), with half of the Plan period still to go. Surely no one can say that India's friends abroad have been found wanting when it came to concrete assistance. Indeed, the generosity of the response and the promptness with which it has been forthcoming reveal a degree of understanding on the part of the donor countries of the gravity of our problems which our own administration has failed to show.

It is true that more foreign aid is required and it is true also that the aid extended is not always totally disinterested. It is not the morality of foreign aid that should worry us, but rather whether we have a policy in this matter that is not only realistic in terms of our ability to repay but is also based on a hard-headed appreciation of our own interests. The very magnitude of the foreign aid that we have succeeded in negotiating for ourselves, relative to the level of investment that is sought to be sustained by it within the country, is a matter for concern. The rate of investment in the economy now runs at a level of over 10 per cent of national income. Compared with the rate a few years ago (approximately at 5 per cent of national income) the step-up is impressive. But it is also true that in the last three years the deficits in the country's balance of payments have averaged well over 3 per cent of national income. In order to cover these deficits it has become necessary to negotiate for foreign aid on a large scale.

The Finance Minister places the additional aid required at about Rs. 308 crores. This implies that with the aid already available and the withdrawals from the sterling balances and International Monetary Fund resources to date, his estimate of the likely foreign exchange deficit over the entire period of the Second Plan is about Rs. 1,900 crores. Since the balance of payments deficit in the first half of the Plan (April 1956-September 1958) has been estimated roughly at Rs. 1,100 crores, it would appear that the estimated deficit in the second half will be about Rs. 800 crores.

But this apparent decline in the size of the deficit is not as comforting as it might appear. For the Finance Minister has been careful to leave out of account imports of food grains and certain other agricultural commodities that might be required during this period. The rationale of this somewhat perplexing procedure is found in his assumption that these will be taken care of by additional aid from the United States under Public Law 480. There is a growing tendency in Government to regard aid under PL 480 as the equivalent of a good monsoon. This would be an understandable attitude on the part of the hard-pressed Minister for Food and Agriculture, but less so in the Finance Minister. For aid under PL 480 is largely in the form of loans, and to that extent it has to be repaid. It is true that this aid is repayable in local currency, but the provisions regarding the use of rupee deposits by the United States are not such as would justify our ignoring the implications of this kind of aid on an unlimited scale.

So long as there is ambiguity on our part regarding the magnitude of the assistance we seek under PL 480, no appraisal of the economic and political implications of foreign aid is really possible. What passes for a "pragmatic" and "realistic" approach, in this context, is nothing but the lack of a policy which can cost us dearly in the future. This is not the only matter which needs looking into. When a foreign country indicates willingness to extend aid, there is often evidence of a dilatoriness on our part in deciding on the use of that aid which is sometimes totally inexplicable. We would be the first ones to point out if the dilatoriness were at the other end (as we have done, for instance, in connection with the United States food loan of 1951).

It is good to be grateful to countries which are prepared to help us, no matter what their own reasons for giving us aid. But no foreign aid can really take us very far unless we have a clear view of our own interests, and not only take care to formulate a well-defined long-term policy in terms of our needs and ability to repay, but also have in hand machinery for the quick and effective use of such aid as is forthcoming. /The Indian rupee is quoted at 21 U.S. cents; one crore = 10,000,000 rupees./

MALAYA

Budget estimates for 1959
The Financial Times, London, December 4, 1958, page 5 - From Singapore

Budget estimates for the Federation and for Singapore were presented in Kuala Lumpur and in Singapore, respectively, on December 3. Federation expenditure is estimated at $M 874 million (U.S. $286 million) and revenue is expected to be $M 760 million, leaving a deficit of $M 114 million. This compares with an expected deficit of $M 90 million for the current year. Expenditure for Singapore is set at $M 264 million ($M 13 million less than in 1958), and revenue is expected

to yield $M 243 million, leaving a deficit of $M 21 million. For 1958 revenue and expenditure are expected to balance at $M 248 million.

The Federation as well as Singapore are increasing company tax from 30 per cent to 40 per cent beginning January 1. Non-residents will now also pay 40 per cent. The Federation is not changing its income tax, but personal income tax in Singapore will be raised to 50 per cent for taxable annual incomes over $M 50,000. The Federation is increasing petrol tax and is also imposing an export duty on rubber planting materials. Singapore will impose additional tobacco duties on imported cigarettes.

Bank law changes
The Financial Times, London, December 5, 1958, page 17

The Federal Legislative Council in Kuala Lumpur passed amendments to the Federation's banking laws giving the Government power to close down after January 1959 banks operating in Malaya which are under the effective control of foreign governments. The banks will be given three months' notice. Sir Henry Lee, the Finance Minister, said that this was not aimed against any particular country, but the Government felt that banks backed by foreign governments could exercise undue influence in finance and trade in the Federation.

Under this law, banks operating in the Federation must have an issued capital amounting to $M 2 million (U.S. $654,000). Those whose headquarters are outside the Federation must have liquid assets totalling $M 2 million at least in the Federation, or an issued capital of $M 5 million. The Bankers' Committee had agreed to this and banks would be given 10 years to comply with necessary requirements, he stated.

ARGENTINA

Free exchange rate for peso
The Times, London, January 13, 1959, page 12

The United States dollar was initially quoted at 63 pesos buying and 67 pesos selling when free exchange dealings started in Buenos Aires on January 12. Dealings had been suspended since December 29, when the free rate was around 67 to the dollar. With the resumption of foreign exchange transactions, import and export business was also getting under way again. As was expected, the new import-export regulations which took effect on January 12 were welcomed by exporters, who generally benefit from the new system, and condemned by importers, who are worried by heavy import taxes and Customs bonds. A spokesman for the Wool Federation stated they welcomed the new economic régime, which represented a return to healthy free trade practices. Exporters could look forward to a 10 per cent profit increase.

PERU

Anti-inflationary measures
Neue Zürcher Zeitung, Zürich, December 16, 1958, section 11 (in German)

According to pronouncements by the Prime Minister, Señor Luis Gallo Porras, who is also Minister of Finance, the Peruvian Government has given up the idea of deficit financing and is trying to restore confidence in the country's currency by imposing anti-inflationary measures, thereby hoping to create a favorable climate for foreign investments.

The Prime Minister announced administrative decreases in the Budget for 1959 of 195 million soles, thus reducing total expenditures to 4.4 billion soles ($172.7 million). In order to cover the budgetary deficit of 600 million soles it is proposed to raise taxes on profits from business from 20 per cent to 35 per cent and to increase patent fees. This plan is expected to produce 160 million soles for the State. The other 440 million are to be obtained from "projects submitted at the proper time to Parliament." It was not explained just what these projects were, but there are persistent rumors of increases in Customs duties.

There are signs that the sol may be stabilized at the present level of 24.50-25.00 per dollar. At any rate, after the stand-by credit of $60 million from the International Monetary Fund and the credit from the International Bank for Reconstruction and Development of $40 million, the prospects appear more optimistic. However, the fact that forward sales of dollars have decreased markedly indicates that confidence in the stability of the currency leaves much to be desired.

The planned tax increases, although not yet approved by Parliament, have been vigorously opposed by the business sector; if approved, they would sharply impair private initiative which is such an important factor in Peru's economy. The private sector or at least those enterprises which have a claim against the State already are subject to a certain special tax which, legally, rests on a shaky foundation. The Government which, for a while, was not able to meet its internal commitments, suddenly declared itself willing to settle accounts with the proviso that its creditors were to pay a "voluntary" contribution of 10 per cent of their claims into a special account, set up for purposes of slum clearance.

The anti-inflationary policies are also continuing in the credit field and loopholes in this respect are being closed. In this way the Government hopes to be able to control inflation without imposing import licensing or restrictions. Above all it is hoped that a stable currency would attract foreign funds for investment in Peru. It is not clear, however, just how the planned tax increases fit into this "friendly" investment climate.

All these measures are being publicly criticized and vigorously opposed. Indeed it is difficult to see how they could lead to a quick solution of Peru's problems unless there were a rise in prices on world markets for Peru's traditional exports of lead, zinc, copper, cotton, and sugar. Because of the drop in prices for these commodities Peru's foreign exchange receipts in the first nine months of 1958 have fallen by 8 per cent to $212 million. There are signs, however, that Peru's exports in 1959 may remain at the same level as in 1958. Although imports during the period January-September 1958 shrank by 12 per cent, reducing the trade deficit for that period from $70.1 million in 1957 to $50.3 million in 1958, it is easy to understand why the authorities are attempting to check the outflow of foreign exchange by increasing import tariffs.

The Government is also facing other difficulties. For political reasons it is almost impossible to eliminate sinecures within the government service despite the considerable drain on revenues. A further drawback lies in the traditional system of tax collection whereby the Treasury is defrauded of enormous amounts. Only a very strong Government would dare to remedy such a situation. Perhaps Señor Gallo Porras' "administrative savings" of almost 200 million soles indicate that he will try to take a step forward in this direction.

INTERNATIONAL COOPERATION

A code for foreign capital?
The Economist, London, December 13, 1958, page 1012 and 1016

A small group of bankers, businessmen, and lawyers from western countries met in Geneva early in December to discuss measures that could help take the political risk out of international investment. The search for a code of international behaviour towards foreign investors is an old one, and a good number of drafts have been prepared recently -- by the International Chamber of Commerce, by Herr Abs of the Deutsche Bank, and by the Swiss Government. Some of these are being considered by the Organisation for European Economic Cooperation.

The aim is admirable, yet some skepticism is to be heard in official circles in London about the chances of real progress. If all creditor countries, and above all the United States, were to declare themselves willing to refuse aid or loans to any country that flouted the agreed international code, that code would certainly be made effective. But all history shows how poor are the chances of getting such unison. Are they any better now, when loans have become even more directly than they were instruments of international politics? No one supposes that the United States would necessarily cut off aid from a Latin American country because it went in default on loans to someone else. Germany, for all its aspirations in this sphere, recently made a "political" loan to Greece, which is in default on its prewar debts, and an international operation has been mobilized to provide help for Turkey, whose debt service is in an unfortunate tangle. The World Bank sticks to its principle of not lending to any country in default on external debt, and that principle has not only saved it from suffering default itself but has deterred would-be borrowers from breaking their commitments to past providers. The first step in any international code is to follow the principle of the World Bank.

One way of reducing the risks to the private investor of foreign investment is for the lending government to provide insurance against the "political" risks, such as confiscation or inconvertibility. The United States provides such guarantees, and Germany is now considering them. Britain should think twice before it takes this particular plunge. No one can eliminate the risk of leaving money in countries that have no intention of allowing it reasonable freedom; if a government brings the risk on to itself, the result may well be that more money is induced to go to the wrong places. A scheme of this kind may possibly be needed to meet the established conservatism of the German in foreign investment; if it is adopted, it should certainly embody realistic premiums.

Economic link approved in Cairo at Afro-Asian conference
The Times, London, December 12, 1958, page 9 - From Cairo

The Afro-Asian economic conference ended in Cairo on December 11 with the unanimous adoption at a plenary session of a number of pious hopes. Only one had an immediate practical import: this was a resolution embodying the United Arab Republic's proposal for the creation of an "Afro-Asian organization for economic cooperation" at chambers of commerce level.

The aims of the organization are to increase economic collaboration among national federations of chambers of commerce in member countries by ways to be out-

lined in the charter which in turn is to be drafted by a consultative committee consisting of 11 nations - China, Ethiopia, Ghana, India, Indonesia, Iraq, Japan, Libya, Pakistan, Sudan, and the United Arab Republic. The charter will be submitted to a meeting of the organization's council, consisting of delegates from all member countries, which will convene every two or three years. The council's first meeting is to be held within a year from now.

There is little prospect of this organization doing more than coordinate some studies of the real problems which underlie all the other resolutions adopted by the conference, none of which has had any real discussion. These other resolutions call for such worthy achievements as expansion of payments and trade agreements, the industrialization of member countries to meet the threat of the Common Market, exchanges of technical and financial aid, the creation of "pools" and unions among raw material producers, and the creation of an Afro-Asian organization at governmental level to help to put all this into practice.

As all this, however, depends upon the governments of the countries concerned upon which this conference and its members can have no more than a persuasive effect (except in the case of the Communist delegations, who must be presumed to represent their governments), the translation of these resolutions into practical policies is almost as far away as ever. Considering the unofficial nature of the conference, its totally inadequate preparation, and its brevity, matters could hardly have been otherwise. It will probably emerge that the chief importance of the occasion will lie in the mere existence of the resolutions as a propaganda resource. Certainly any suggestion that an Afro-Asian common market is just around the corner has been exploded.

SHORT NOTES ON CURRENT ARTICLES

Economic and Financial Survey

The Statist, London, December 13, 1958, International Banking Supplement, 172 pages. Most of the thirty articles contained in this Supplement summarize economic trends and developments during 1958 in countries all over the world (with the exception of Communist countries). Several articles deal with the activities of international institutions, such as the International Monetary Fund, the International Bank for Reconstruction and Development, the Bank for International Settlements, and the European Investment Bank. The Supplement also contains statistical tables and figures from statements of the most important banks in the country under discussion.

SELECTED ARTICLES FROM REVIEWS OF FEDERAL RESERVE BANKS

(Articles are obtainable from Federal Reserve Bank in cities named.)

"The changing mix of money"	Chicago	January	1959	3 pages
Economic recovery in retrospect and prospect.	Kansas City	January	1959	7 pages
Agricultural outlook for 1959	Kansas City	January	1959	6 pages
The trend of liquidity	New York	January	1959	4 pages
Commercial banks and consumer credit abroad .	New York	January	1959	3 pages
Magnitude of the Federal Debt	St. Louis	January	1959	3 pages
New energy for the Northwest	San Francisco	December	1958	4 pages

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Banking for the bankers

The Economist, London, January 24, 1959, pages 333-335

Banking in Britain in the past year has broken free of its shackles. It has been competitive, exciting, profitable, and businesslike. In the few months since the authorities called off the credit squeeze last summer, the banks have regained, largely through a series of dramatic innovations, much of the goodwill they sacrificed during their enforced passivity. The changes have attracted widespread public attention; on the Stock Exchange they have transformed bank shares from virtually fixed interest money stocks to equities with a new growth potential.

How do the bankers themselves regard their new situation? The annual reports, which always command an audience much wider than the banks' shareholders, gave the bankers an occasion to describe their revolution. But only two, Barclays Bank and Midland Bank, do so; the rest are in this respect disappointing. A number of the

banks' reports are better dressed, and that is welcome. But contents matter as well as clothes and the banks' own activities certainly deserved a report this year. It is, after all, a little piano to say of the unprecedented participation in the capital of a hire-purchase company that it was undertaken "after careful consideration," and that the bank is "wholly satisfied" of its desirability.

The bankers' views on wider topics are as interesting as always. Indeed they would surprise many people. The chairmen of the great deposit banks are far from being hard money men, still less deflationists. They show a remarkable unanimous restraint in the way they greet external convertibility and they all join in welcoming the Government's measures to pull the economy out of its modest recession. And, once again, no special enthusiasm is displayed for the use of the thoroughbred controls -- Bank Rate and open-market policy. Bankers' views on monetary policy would be very welcome, together with more detail about commercial banking operations. But the bankers' comment about the economy might be more selective. Where their comments are drawn from their particular experience they still have a unique interest; but the general survey nowadays has to compete with a profusion of economic comment from ever-widening sources.

Although most of the bankers are reticent about monetary policy, almost all of them express their hearty welcome for the end of the credit squeeze -- and their reservations about the scheme for "special deposits" at the Bank of England. The strongest condemnation of special deposits comes from Lord Aldenham of Westminster Bank, who regrets the decision and trusts that the power will never be used. "I would have thought," he stated, "a better method would be for the Government itself to refrain from creating an excessive volume of credit." At the other extreme, Mr. Tuke of Barclays Bank, long skeptical about the efficacy of Bank Rate, holds that the authorities are "perfectly entitled to fortify their control machinery"; whether it can be operated fairly between individual banks he is less sure.

Mr. Tuke spells out in some detail the considerations that led Barclays Bank to take up a 25 per cent interest in United Dominions Trust last July. His fellow bankers are less forthcoming about their own hire-purchase affiliations. Not all of them are as emphatic as Barclays Bank about the need to keep hire-purchase at arm's length. Lloyds Bank, which, like the National Provincial Bank, has not gone in for the new personal loans, has over £ 13 million invested in three finance houses and believes the spread of the bank's interest is a natural extension into a field that might be described as the "first cousin" to banking proper.

The most controversial of the year's banking innovations, the introduction by Midland Bank of "personal cheques" offering a cheap bare bones transfer service, still shows no signs of being followed by other banks. Mr. Tuke refers meaningly to "second class passengers," and Lord Aldenham states flatly that it has not been thought necessary to "advertise a special cheap restricted current account"; in fact the Westminster Bank scored a record number of new accounts last year. But Lord Monckton [of Midland Bank] too, reports a "marked acceleration" of day-to-day business of the established kind, following the introduction of personal loans and personal checks. These new facilities thus seem to be succeeding in getting a new class of customer into the banks. "Large numbers" of personal check accounts are being opened every day, and the average balance on these accounts has exceeded the bank's expectation. Employers have shown a lively interest in them, in connection with paying their staffs.

The Midland Bank also attaches particular importance to personal loans, which it was the first to announce, though other banks had their schemes waiting in pigeon holes; and it is the only bank that gives any information about them. Up to the end of December Midland Bank had made 45,000 personal loans, averaging about £ 160; the amount outstanding was about £ 7 million. Lord Monckton states that the demand has been evenly spread through the country, and that over one-third by number, and one-half by amount, have been for purchase of cars. This bears out the claim that the banks may draw away from hire-purchase companies some of the cream of their private business.

Most of the increase in advances since the end of the credit squeeze, however, has been through overdrafts. In all the rise has been considerable -- over £ 200 million or 10 per cent in the second half of 1958. But on a long view the level of bank advances is "still very low." Advances are far smaller than they were in relation both to the banks' own assets and to the volume of credit available to business. The ratio of advances to deposits is particularly low at Barclays Bank and Midland Bank. Their jockeying for position has played a big part in the more venturesome and competitive attitudes the banks have recently taken. Midland Bank has just managed to regain its lead in total resources helped by a big increase in foreign business and foreign deposits. Both banks seized the new opportunity to serve their borrowing customers and attract new ones. Midland Bank proudly points out that its liquidity was strong enough to permit this expansion without any sales of investments. The other big London banks have each had to sell.

Some of the bank selling, expecially of medium-dated stock, has incurred the displeasure of the authorities, who in a delicate gilt-edged market have sometimes taken stock straight into departmental portfolios. These moral overtones from the Old Lady /of Threadneedle Street = the Bank of England/ seem rather out of place, especially as the authorities during the prolonged curb on advances were encouraging the banks into gilt-edged. Long years of inflation have indeed left the gilt-edged market uncomfortably narrow and ill placed to absorb substantial sales; but in the long run the market will not be helped if banks are made to feel, by dint of the official frown, that they have not full freedom to manage their portfolios. The great achievement of this past banking year has been the restoration of banking decisions to bankers; the authorities, as well as the bank chairmen, must accept the logic of freedom.

SWITZERLAND

Dollar rate of Swiss franc
Neue Zürcher Zeitung, Zürich, December 30, 1958, section 5 (in German)

On December 30, the Swiss National Bank raised its buying rate for the dollar from 4.285 Swiss francs to 4.295 francs and lowered its selling rate from 4.46 to 4.45 Swiss francs. The former margin on either side of the dollar parity of 4.3728 francs was thus narrowed from about 2 per cent to about 1-3/4 per cent. The old margin was based on a buying price of gold of 4,869.80 francs (about 1 per cent above the parity of 4,920.63 francs) plus 1/4 per cent handling charges and a somewhat generous 3/4 per cent for transport and insurance; the new margin was reached by reducing these cost estimates to their correct level of 1/2 per cent. The newly-established buying and selling rates for the dollar correspond thus to the gold points based on the parity of $35 per fine ounce.

This adjustment was necessary because under the new system on the exchange market a divergence between the buying and selling rates for the dollar and the gold points, in case of a low dollar quotation in Switzerland, would lead to foreign dollar purchases against gold or francs, and also because in that case the inflow of dollars would cease and only gold would be offered for sale. Now that England and other European countries are able to make payment in gold, the gold points for European transactions are even nearer to parity than the gold points for oversea transactions, so that actually a still higher dollar buying rate of the Swiss National Bank would have been justified.

AUSTRIA

Freeing blocked schillings
The Financial Times, London, January 13, 1959, page 3

The Austrian National Bank has given permission for the free transfer of so-called "blocked schilling accounts" of citizens of member States of the European Monetary Agreement. Accounts registered at Austrian banks up to December 31 last will be converted into "free schilling accounts" -- freely convertible following the National Bank's order of January 1. The measure does not apply to citizens of the East Bloc countries.

ITALY

Why unemployment is high in Italy
The Times, London, January 16, 1959, page 14 - From Milan

For all its vigorous industrial expansion since the war, Italy's economy presents a striking paradox: the large solid core of unemployed. These unemployed seemed to have remained unaffected by the general prosperity. What explains this large, persistently unoccupied labor force?

To begin with, the frequently quoted figure of 2 million unemployed is in itself questionable. It is based on data published periodically by the Employment and Social Security Bureau. The monthly average for 1957 was 1,969,891. But this figure is misleading, for it includes people who want to shift from one job to another or who are looking for extra work to supplement their main occupation. An inquiry carried out by the Institute of Statistics in November 1957 (when seasonal unemployment was fairly high), showed that out of a total labor force of 20,334,000 the workless were 1,401,000. This figure may be safely taken as indicating structural unemployment in Italy.

Three main points should be taken into consideration in assessing this unemployment: 1) Demographic pressure: The Italian population increased in the first half of this century from 34 million to 47 million. Although the birth rate has now fallen, the "aging of the population" still causes the number of those entering the labor market every year to exceed the number of new births. Changes in social habits, such as the growing emancipation of women, also combine to keep up the pressure of the demand on the labor market. 2) Unemployment in Italy is but one aspect of a larger and even more serious problem, for which the Tremelloni Commission has coined a new word: disemployment, meaning incomplete utilization of manpower. The figure of 1,400,000 unemployed represents about 2.8 per cent of total population, but it is 6.6 per cent of the working population. This means that in Italy about 59 per

cent of the population does not work, one of the highest rates in civilized countries. 3) Last, but by no means least, a very large percentage of the 1,400,000 unemployed are unemployable for want of training and qualification. As any Italian industrialist will tell you, there is no unemployment among skilled workers in the industrial North, on the contrary, there is a shortage. The core of the unemployed is represented by the untrained and uneducated masses of Southern Italy, the Islands, the Po Delta, and the subalpine belt.

The Tremelloni Commission's report revealed that 11 per cent of the nation is still illiterate, and that only one in ten workers aged 40 or over and only three in ten under 40 years of age had a certificate covering the complete elementary school course. Scarcity and poor quality of vocational training schools is one of the main weaknesses of the Italian educational system. Training courses are being organized for the unemployed; but the requirements are far from being met.

TURKEY

Threat to Turkish tobacco exports
The Times, London, January 15, 1959, page 6

Disappointment in Ankara at the lack of success of the plans for a Free Trade Area, of which Turkey was proposing to become a member, is accentuated by anxiety regarding the effect of the European Common Market on Turkish tobacco exports. Tobacco is one of Turkey's main export crops, and about 23 per cent of the exports go to the six countries of the Common Market, mainly to West Germany, Holland, and Belgium. The six countries, under the Rome Treaty, are apparently permitted to place a 30 per cent tariff on all leaf tobacco imported from outside sources, and this will directly affect Turkey. Turkish merchants are convinced that the difference in the internal price of tobacco in the six countries resulting from the new tariff will encourage German, Dutch, and Belgian cigarette manufacturers to turn more and more to Turkish-type tobacco grown in Italy, which is a member of the Common Market, or in North Africa or the Belgian Congo, which are affiliated territories. The Turks think that to accustom buyers to the new taste, the western merchants will begin reducing imports from Turkey at once.

Exporters feel that Italian tobacco growers will benefit most from the Common Market, and that in fact no outside tobacco exporting country will be able to compete with them. Countries such as Greece and even the United States will be affected. The United States still buys a good deal of Turkish tobacco, but the Turks do not feel very hopeful that the Americans will increase their purchases sufficiently to make good the loss of west European markets. Nor is Britain, which buys only a small amount of Turkish tobacco compared with the quantity she used to purchase before the war, likely to help out.

UNITED ARAB REPUBLIC

Outcry against land redistribution in Syria
The Times, London, January 7, 1959, page 8 - From Beirut

The Syrian Minister of Agrarian Reform has just issued a decree confiscating about 35,000 acres of land from 39 Syrian landowners. This is the third decree of its kind, and brings the total of land confiscated so far under the Syrian land reform program to slightly over one million acres, affecting more than 80 landowners.

The application of the land reform program is one of the most important issues that threaten the harmony of Syrian-Egyptian relations; and while some of the complaints of the landowners concerned can be attributed to their dislike of dispossession, there is much economic sense in their detailed criticism. President Nasser has denied that the agrarian reform law in the Syrian region was less fair to farmers than the reform carried out in Egypt a few years ago, but most observers are convinced that the Syrian law takes insufficient account either of the fundamental geographical and social differences between Egypt and Syria, or of the wider variation in environment between different parts of Syria itself. One farmer told the President that, while the maximum holding of 200 acres in Egypt could be expected to produce an annual revenue of £ 8,000, the maximum holding in Syria -- roughly 200 acres of irrigated or 500 acres of non-irrigated land -- would give only a quarter of that income.

The Syrian authorities will have to provide the financing which, until now, has come from private investment, and with so many other calls being made upon Government funds, especially for increased industrialization, some conjuring may be necessary to produce the cash. One call, however, that should not embarrass them, is that for compensation for the expropriated land, which is to be made at the rate of ten times the rent value of the land, available in bonds at 1-1/2 per cent, interest redeemable in 40 years. So far these have not seemed attractive even to the Central Bank of Syria, which still refuses to accept them as security for loans, so that their present value for investment elsewhere is decidedly limited.

To the Syrian peasant and landless laborer the promise of eventually obtaining something for nothing is good enough, and it would be unwise to forget the social justice as a new political concept in the Arab world. But many who have no direct interest in either side are fearful of the effects of the present law on Syrian agricultural production; and they point to the irony of upsetting so crudely a system which has raised the level of farming in Syria above that of anywhere else in the Arab world. Within less than a decade cotton production has increased by 5,000 tons a year to 100,000 tons, and the wheat harvest has risen almost as much. These are not figures that Egypt can easily overlook with her chronic shortage of foreign currency and her growing gap between cereal production and consumption. No one need be surprised if the agrarian land reform law is modified in practice to fit the needs of the country. If it is not, political haste will probably have scored yet another triumph over economic wisdom.

Dividend law in Egypt
The Financial Times, London, January 15, 1959, page 11 - From Cairo

The Egyptian Government, in response to requests by company representatives, has modified the provision of its new law fixing a ceiling on dividends. It is now stipulated that in any given year the dividend can be a maximum of 20 per cent -- instead of only 10 per cent as stipulated when the law was first issued three days ago -- more than the dividend paid in 1958.

In announcing this, the Government's delegate on the Cairo Stock Exchange also indicated that the authorities would be prepared to consider companies' applications for authorization to increase the dividend margin. Other provisions of the law remained unchanged. Companies must put aside 5 per cent of the net profits for the purchase of Government bonds, and they cannot use reserves for purposes other than those for which they were originally allocated without prior approval of the Ministry of Economy.

SUDAN

British credit welcomed
The Times, London, January 7, 1959, page 7 - From Khartoum

The £ 5 million credit granted to Sudan by the British Government for buying British exports has been warmly received as aid without strings, and a practical indication of British good will towards the new régime. The loan comes at a time when Sudan is hard pressed to find foreign currency. The foreign trade figures for the first eleven months of 1958 show a deficit of £ 16.4 million. Trade with Britain accounts for over 30 per cent of Sudan's total foreign trade, but imports from the United Kingdom greatly exceed British purchases of Sudan produce.

The British loan, in conjunction with the provision by the United States of $15 million to finance imports, announced last October, will strengthen Sudan's reserves, but the immediate problem of the disposal of the cotton crop remains. The Sudan Gezira Board has still 185,000 bales on its hands from past seasons, and the new Gezira crop, which will appear on the market in March, is conservatively estimated at 600,000 bales.

ARGENTINA

Argentina's exchange reform
The Economist, London, January 3, 1959, page 66

Simultaneously with the establishment of external convertibility of European currencies, Argentina announced the replacement of its system of multiple rates by a convertible peso at a single rate fluctuating in a free market, backed by big dollar credits. Following recent precedents in smaller Latin American countries, proposals for credits from private American banks and U.S. Government agencies were linked to a credit from the International Monetary Fund; and as Argentina had already drawn one-half of its quota of $150 million, the IMF was able to lay down important conditions on further support. It has now made available the remaining $75 million as a stand-by credit. Total dollar assistance amounts to $329 million.

Argentina will be able to use the IMF credit for a stabilization fund that is to check excessive fluctuations in the free peso. Dealings in the new peso have not yet begun; some observers guess that the new rate may be at around 120 pesos to the pound, compared with 50 pesos at the old official rate and up to 200 pesos in the limited free market. Although Argentina is now removing all direct controls on imports and is thus putting its trade on a non-discriminatory basis, the authorities are for the time being imposing important surcharges on imports, as well as retaining a part of export proceeds. Effectively, therefore, multiple rates have not been abolished. The real worth of this exchange reform depends largely on how long the temporary provisions are kept in being. That in turn depends on the Government's ability to check inflation. It has now announced rigorous budget economies and new taxes, and proclaims a tough line on bank credit, wages, and prices.

Brake on bank credit
The Financial Times, London, January 5, 1959, page 6 - From Buenos Aires

The consequences of the Government's "stabilization plan," which officially began on January 1, are now becoming apparent. In an effort to curb the excessive

inflationary pressures which the new policy might create, especially through expansion of bank credit, the central bank has ordered the banks to increase their minimum cash holdings from 20 per cent to 30 per cent of their deposits and sight liabilities. The central bank has also released a series of circulars containing instructions to the banks on the operation of the new free exchange market. But it has not yet published the lists showing the grouping of commodities subject to the varying scale of surcharges and prior deposits for imports and the retentions on exports, nor has any indication been given yet of how the peso will be initially quoted on the new free market.

MEXICO

Budget estimates for 1959 - Social services expanded
The Times, London, January 23, 1959, page 8

Figures published by the Treasury give the estimated Budget income for 1959 at 9,390 million pesos ($752 million), with expenditure at about 4 million pesos less than this. Revenue from income tax will amount to 30 per cent of total income. For the rest, 25 per cent will come from taxes on foreign trade, 23 per cent from commerce and industry, 11 per cent from charges for rights of exploitation, 6 per cent from interest on loans, and 5 per cent from miscellaneous taxes.

The largest item of expenditure, 27 per cent of the total, is allocated for social services, such as hospitals and schools, whereas 24 per cent will be devoted to transport and communications which were developed rapidly under the previous Administration. Some 13 per cent is earmarked for the public debt, 11 per cent for the development of agriculture and livestock, 10 per cent for the armed forces, 8 per cent for administration, and -- perhaps rather surprisingly -- only 7 per cent for industrial and commercial promotion. This low figure, however, is likely to be compensated for by the encouragement of private enterprise and investment.

The Government expects to obtain during the next three years nearly $120 million from exploitation of natural resources, an inventory of which is being prepared. Among these must be counted uranium.

SHORT NOTES ON CURRENT ARTICLES

The problem of the public debt in Canada - By E. P. Neufeld

The Canadian Banker, Toronto, No. 3, Winter 1958, pages 49-62. Professor Neufeld of the University of Toronto, in this article discusses the unprecedented growth of the Canadian public debt during the war years and its decreasing importance as a factor in influencing official economic policy in the postwar years. Recent and renewed expansion of the debt, however, call for a reappraisal of the problems of debt management. The author outlines some of these problems and how the authorities have dealt with them. He points out that close coordination between monetary management and debt management seems to be needed despite certain disadvantages. In concluding he ventures the opinion that "successful debt management in future without price inflation may be possible only if the authorities permit interest rates to move freely to high levels, and if they raise the federal tax rates." The article also contains a number of statistical tables.

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

The long-term rate of interest - By Roy Harrod
The Financial Times, London, January 28, 1959, page 9

Public policy is now, wisely and correctly, directed to re-expanding the economy and to reviving the momentum of growth. On the one side a direct stimulus to investment has been applied by the raising of ceilings in the public sector. On the other side stress is laid on raising the level of consumption, by relaxation of hire-purchase restrictions, by allowing new forms of banking accommodation, etc. and, in due course, it is to be hoped, by tax reductions. Meanwhile tax payers should arrange their household budgeting today on the assumption that some decent tax relief will shortly come to them.

Thus it is rightly desired to encourage both investment and consumption. It is to be noted that the increase of consumption, which is of course to be desired for its own sake, is designed to have a favorable effect on investment also. Owing to the existence of surplus capacity now, consumption will in many lines have to rise some distance before the industries in question will begin again to nibble at

more investment with a view to increasing their capacity. Investment and consumption must have a balanced relation to one another on the path of economic growth; otherwise there are bound to be bad jolts and jogs in the economy.

The classic method for encouraging investment is to have a low long-term rate of interest. This weapon appears at present to be suffering from neglect. The rate on gilt-edged stock remains high by traditional British standards. Low interest need not be regarded as a substitute for the methods of stimulating the economy mentioned above, but as a natural and proper complement to them.

It is surprising that more stress is not laid on it, since its bias, as a stimulator, would be towards more investment. Only three or four years ago, when an investment boom of disproportionate magnitude was throwing the economy out of balance and causing inflationary pressure, there was the greatest reluctance to discourage investment, because comparisons with foreign countries and other criteria pointed to the need for a higher level of investment in Britain; my plea for curbing investment as a necessary temporary correction at that time was considered by many as almost indecent.

But some of the arguments for high investment were valid in their own right, and are no less so today than then. Yet now, although investment demand has got out of balance on the low side, we are not resorting to the classic and most obvious method of restimulating it.

Some urge that investment is not interest. In that case we should surely have a low rate, since a high one is burdensome to the taxpayer, and he is already burdened enough through other claims on him. Others urge that the high worldwide postwar demands on investment account are such as to necessitate a high interest rate and that we must settle down to that unpleasant fact if we are to avoid inflation. That argument implies that investment is sensitive to the interest rate, for otherwise a high rate would have little effect in checking inflation.

The fact remains that at present investment demand is too low. We need not be deterred by problematic considerations about the long-run future from trying out the classic remedy for deficient investment now, especially as this would be beneficial in other ways also. If the situation develops differently later, we can always reverse engines again. That would be in line with the principles of a "flexible" monetary policy.

There has been some talk in recent months of reviving "investment" allowances. These are intrinsically unsound, since they are palpably a subsidy and in the long run very burdensome to the taxpayer. We judge that those subsidies that have remained with us as the aftermath of war, housing and food subsidies, are intrinsically unsound and we are striving now to dispense with them. Then we should surely not add another subsidy, likely to mount up to a very large sum after the passage of years.

Is it not a strange paradox that voices should be raised to advocate a newfangled method of encouraging investment ("allowances"), while we fail to use the traditional, ancient, well-tried, well-authenticated, and orthodox method of doing so, namely, by a lower long-term interest rate? The method of encouraging investment by "allowances" burdens the taxpayer; the method of doing so by low interest rates relieves him. Does he not need relief? Should we not therefore think of low interest as our first recipe?

The reason why we do not do so is not far to seek. It would not be difficult to bring the long-term rate down, but the historic method for doing that is to increase the quantity of bank deposits through open-market operations by the Bank of England and, by the most excessively muddled thinking, it is supposed that this would be "inflationary." An increase in the quantity of bank deposits would have no more tendency to raise prices than any other method of stimulating demand.

But we are now pursuing other methods of stimulating demand; it is judged, in my opinion rightly, that in the existing environment of recession an increase in the demand for goods and services will not cause a rise in prices. There is nothing in a fall in the long-term rate of interest, effectuated by an increase in the quantity of bank deposits, that will have a greater tendency to raise prices than any of the other methods of stimulating demand, such as are now being applied. One had supposed that the fallacious form of the "Quantity Theory" of money which saw a direct relation between the quantity of bank deposits and the price level had died and been decently buried a quarter of a century ago. It is to be noted that the Federal Reserve System conducted open-market operations to increase the quantity of money on a bold scale last year; this may be regarded as having been a prime cause of the American recovery and it has had a salutary worldwide influence.

It is difficult to measure the present deficiency of the quantity of bank deposits in Britain, owing to the problem of choosing a suitable year for comparison. If we take the ratio of the total quantity of bank deposits to the money value of the national income, as recorded by our statisticians, to have been 100 in 1938, it was 117 in 1950. This was probably inflationary. It had been reduced to 95.3 in 1953, a year of fair balance. Owing to the subsequent deflationary policy, which was needed and thoroughly justified in 1955-56, it had fallen by 1957 to 75.4. It was probably slightly lower still in 1958 and definitely subnormal. If it were now restored to 100, or even to 95, the gilt-edged rate of interest would move easily downwards and might well regain the historic British norm of 3 per cent.

How great an effect this would have on recovery no one can state with confidence. We are encouraging consumption and we are encouraging investment in the public sector; we should match this by trying out the time-honored method of encouraging investment in the private sector also, namely financial ease, to be effectuated by restoring the quantity of bank deposits to a more normal level.

SOUTH AFRICA

Interest rates in South Africa
The Financial Times, London, January 15, 1959, page 5 - From Johannesburg

A complicated situation for South African commercial banks and building societies has been created by the Reserve Bank's decision to lower the Bank Rate to 4 per cent. The Reserve Bank action was taken as part of the Government's policy to revitalize the Union's flagging economy by making money cheaper. The commercial banks and building societies know that they are expected to follow the Reserve Bank's lead -- although no authority exists to compel them to do so -- but none appears willing to take the initiative. There is a shortage of investment money in the Union and the banks and societies want to attract what little there is. Holders of mortgages naturally would like to see the rate of 6-1/2 per cent, which has been in force for the past two years, reduced. The Treasury presumably hoped that lowering the Bank Rate would be followed by general rate reductions, freeing more money for purchases.

The building societies cannot lower mortgage rates without reducing deposit rates and they will not do that until the commercial banks do likewise. Discussions are being held with Dr. de Kock, Governor of the Reserve Bank. It is assumed that the outcome of these discussions will be a simultaneous lowering of deposit rates, but this is unlikely to happen immediately.

Swiss loan for South Africa
The Times, London, January 27, 1959, page 11 - From Zürich

After an interval of several years the Union of South Africa has resumed borrowing on the Swiss market in the form of an issue by the Electricity Supply Commission (Escom). The terms of the loan are 50 million Swiss francs ($11.6 million) at a 5 per cent coupon with an issue price of 100 per cent, the capital being repayable within 15 years. It is to be amortized in 10 years, beginning from the sixth year after the issue. The South African Government has given its guarantee to the loan.

The issue is presented to the Swiss public in effect as an export loan, since Escom is a good client of Swiss export industry. In fact, 60 per cent of the amount of the present loan, that is, 30 million Swiss francs, has already been spent by Escom for imports from Switzerland. In addition, the Escom has assured Swiss export industries in the loan contract of full participation in future tenders. The new loan is the seventh floated since the war on the Swiss capital market to South Africa and South African companies, and brings the total amount of all Swiss postwar loans to South Africa to 300 million Swiss francs. It is estimated that total Swiss investments in the South African Union amount to 700-800 million Swiss francs. This is about £ 13 per capita as against approximately £ 10-18 by United Kingdom investors.

GERMANY

Private discount market in West Germany
The Times, London, January 30, 1959, page 16

A private discount market is expected to open in West Germany early in February. The establishment of this market, which the Deutsche Bundesbank has long advocated, has been made possible by the recent formation of the Privatdiskont A.-G., to act as a firm of discount brokers.

No forecast has been made about the precise level of the private discount rate but it is regarded as certain that it will be below the Federal Bank Rate. The new institution will also undertake acceptance business. However, bank acceptances eligible for acceptance by the Privatdiskont A.-G. will be restricted to the finance of imports and goods in transit. This provision is based on the pattern of the pre-First World War period, to which it is thought financial matters are returning now that a number of countries have made their currencies externally convertible. The nominal capital of DM 5 million ($1.2 million) of the Privatdiskont A.-G., of which 25 per cent is paid up, has been subscribed by a large number of financial institutions. The Commerzbank, the Deutsche Bank, and the Dresdner Bank have taken more than one-third of the capital; the institutions which do the central banking business for the public savings banks have subscribed DM one million nominal; and the remainder has been subscribed by a wide variety of regional and local banks, small private banks, and other financial institutions.

FRANCE

Liberalizing French funds
The Financial Times, London, January 21, 1959, page 9 - From Paris

Liberalization of capital transfers by non-residents will be announced in the Journal Officiel of January 21. This move, which is a consequence of the convertibility of the franc and is designed to assist in attracting foreign investors, will have the following repercussions:

1) Non-residents will be able to claim interest on French securities in any convertible currency of their choice. 2) They will also be able to transfer sums realized on liquidation of French holdings into the currency of their choice at the official rate of exchange, provided the holdings were originally purchased by way of an official quotation on the Paris Bourse. Up to now only newly-placed investments could be transferred in this manner. Others had to be turned into "capital francs" -- since abolished -- at a special rate of exchange. 3) Foreigners investing on the Paris Bourse will be able to expatriate their securities under bearer form. Previously expatriation was only allowed in the case of registered shares.

SPAIN

Economic danger signals
The Economist, London, January 17, 1959, page 229

General Franco's report to the nation at the year's end contained all the ingredients that Spaniards have come to expect. The average Spaniard, General Franco pointed out, was eating better than before. His standard of living was higher. Industrial production was increasing. Abroad, the régime had gained in prestige, respect, and admiration. The General's speech was notable, too, for what it left out. There was no reference to an alarming side of the economic picture that thinking Spaniards are worried about. Nor was there any mention of the flight-capital scandal uncovered a few weeks ago.

Most Spaniards today do live better than they did five, ten, or fifteen years ago, but at the moment it looks as if they will not be able to maintain their new standards. The economy has developed serious symptoms of impending crisis. The cost of living has soared 40 per cent in two years, thus wiping out the benefits of the large wage increase decreed in the fall of 1956. Too rapid industrial expansion in recent years has reduced the nation's gold reserves to $57 million -- and these $57 million are the "untouchable" minimum required as cover for the national currency. Foreign exchange reserves are virtually exhausted, partly because of the growing need for industrial raw materials to keep the country's expanding economy going. A year ago the total trade deficit stood at a record $387 million compared with $170 million two years earlier, and the figure for 1958 promises to be about the same. Foreign credits and necessary imports are becoming harder to obtain.

Lack of foreign exchange, for instance, is forcing the Government to cut imports of petroleum products by about 20 per cent. The economy as a whole will be affected unless somebody (the United States?) comes to the rescue. Petroleum rationing may have to be imposed, but foreign tourists would be spared the inconvenience. Another somber development concerns Catalonia's textile industry which

has been caught up in a severe recession. The average Spaniard has begun to cut expenses, starting with clothing. In October textile sales were 25 per cent below what they were the previous year, and advance orders had dropped by 59 per cent. If the mills are forced to reduce output, 300,000 workers will be affected. Labor legislation ensures that the working man is paid for workless days, but there is always the risk that induced idleness will disturb social stability.

A curious feature of the country's economic plight is that things are bad although American economic aid to Spain has just passed the billion dollar mark (this does not include $350 million for the bases and $400 million for the modernization of General Franco's armed forces). In explanation the Americans say that their economic assistance is not a recovery program; it is for "defense support," that is, it is designed to help Spain to withstand the economic impact of the joint construction of military bases and the modernization of the armed forces. American aid, therefore, is not being poured into the Spanish economy indiscriminately; it is being channelled into basic and selected sectors, notably to agriculture, electric power, transportation, and the supply of certain raw materials and foodstuffs. The Americans feel that their aid program in Spain cannot be held accountable for a situation brought about by excessively rapid industrial development pushed forward at the expense of agricultural needs, by an immovable reluctance to disturb vested interests, by resistance to foreign capital investment, and by excessive government controls on private economic activity.

U. S. S. R.

Soviet statistics for 1958
Neue Zürcher Zeitung, Zürich, January 18, 1959, section 3 (in German)

The Soviet Agency Tass has just published an annual report of the Central Statistical Bureau of the Soviet Union. It reveals that capital investment by the State and the cooperative organizations increased by 11 per cent as compared with 1957, rising to 235 billion rubles ($58.7 million at the official rate of 4 rubles per dollar), but capital investment by the State fell short by 3 per cent of the Plan. Industrial production has gone considerably beyond the targets, and all 15 Soviet Republics have fulfilled their production targets ahead of time. In 1958 more than 800 large industrial State enterprises were put into operation.

The report gives the following production figures: Petroleum, 113 million tons; ore extraction, 88.8 million tons; coal, 496 million tons; pig iron, 39.6 million tons; steel, 54.9 million tons; rolled materials, 42.9 million tons; and natural gas 29.8 billion cubic meters. (Observers in Moscow declared that the largest increases occurred in the natural gas industry - 50 per cent, and in oil production - 15 per cent.)

In 1958 the Soviet Union produced more than 233,000 million kilowatt hours of electricity, or 11 per cent more than in 1957. The textile and the motor car industries more than fulfilled their production quotas. The production of consumer goods and the construction of dwellings also increased. The target to cover an area of 61 million square meters with dwellings was exceeded by 7 million square meters. In addition, the workers on collective farms and the village "intelligentsia" erected more than 700,000 houses.

Cash income on the collective farms amounted to more than 130 billion rubles, n increase of 38 per cent over 1957. Milk production rose by 5-11 per cent; butter roduction was equal to that of the United States. Live stock increased by 11 per ent. Grain crops reached 139 million tons, exceeding the record crops of 1956.

In 1958, 54.6 million workers were employed in the Soviet economy, 1.4 million ore than in 1957. There is no unemployment in Russia. The wages of the average itizen rose by 5 per cent and national income by 9 per cent in the last year. Vorking hours of factory and white collar workers were gradually reduced without utting wages. The number of specialists employed by the State rose by 10 per cent o 7.5 million persons. More than 3.6 million persons were employed in practical ork while studying. Scientific personnel rose by 9 per cent and exceeded the numer of 280,000. About 50 million persons were attending institutions of learning. ore than 1,100 new secondary schools and 10 new institutions for higher learning ere set up.

The newspaper Pravda also published comments on the report under the title 1958 - A year of glorious achievements for the Russian people" stating that production targets in the most important industrial sectors had been fulfilled or exceeded. The paper adds that in certain economic sectors and in the installation of ew centers of production the targets were not reached. Serious mistakes had occurred in the cultivation of corn.

But despite all the shortcomings, it is claimed, the year 1958 furnishes additional proof of the "enormous strength of the Soviet System and the great creative ability of our people." The results achieved in 1958, the paper says, point to "the visdom of the leaders of the Communist Party and its Leninist Central Committee."

MOROCCO

Bank of Morocco nationalized
The Financial Times, London, January 22, 1959, page 12

M. Bouabid, Moroccan Vice-Premier and Minister of Finance, told the National Assembly that the Bank of Morocco would be nationalized in 1959. He said the Government intended to make it "a real bank of issue." Of the 92,000 shares in the Bank, 46,000 are held by French banking interests.

BRAZIL

New export rules
The Financial Times, London, January 13, 1959, page 5

The Brazilian Superintendency of Currency and Credit has announced three new export categories to replace the existing ones. The announcement, in the form of a decree, also abolishes the premiums hitherto paid on coffee export exchange sales. The Superintendency said the first of the new categories would be for coffee beans and roasted and ground coffee. The second category would be for cocoa, cocoa products, and castorseeds. The third would apply to 39 products, among them sugar, cotton, meat, oilseeds, timber, various ores, and vegetable oils. The effective export dollar rate for the first category is to be 60 cruzeiros per dollar, for the second category 70 cruzeiros, and for the third it will be 100 cruzeiros per dollar. All other exports are to be at the free rate.

GOLD

Gold over 700 years
The Times, London, February 3, 1959, page 15

It was bound to happen sooner or later. The current debate on whether the price of gold should be raised, which in recent weeks seems to have shifted from London to New York, has at last had a truly historical note introduced into it. The National City Bank of New York, not content with the normal prewar comparisons, has in its February Bank Letter pushed its comparisons back over no less than seven centuries.

The Bank's conclusions are illuminating. The most striking feature is the consistent upward trend in the price of gold from the Middle Ages up to the time of the founding of the Bank of England in 1694. The Bank works out the rate of increase over this period at 0.38 per cent a year compounded annually. The incredible thing is that if this rate of increase is projected forward to 1958 the price of gold in London should work out at 250s. an ounce, which is in fact remarkably close to the price actually ruling in London at present. The Bank concludes that "the current gold price, according to the trend of long history, would seem to be just 'right.'" It also points out that Mr. Roy Harrod, who last year suggested that the gold price should be raised to $100 an ounce (or the equivalent of 714s. an ounce) will, at the above rate of increase, have to wait for another 278 years before it becomes the "right price."

The Bank is on far safer ground when it notes the reasons for the remarkable stability in the London gold price from around 1700 to 1931. Apart from certain periods during the Napoleonic and First World Wars the price remained around the 78s. an ounce level. "Essentially," the Bank writes, "it was old-fashioned -- Victorian -- morality and caution which defied the trend for over 200 years and kept the gold price stable. People believed that in all but the most extraordinary circumstances payment on demand in gold was necessary as a point of national honor. They were willing to limit liabilities undertaken accordingly, and accept occasional painful periods of retrenchment and business failures whenever over-ambitious commitments reached an unsustainable level." Today, as the Bank concludes, deflations are considered to be intolerable. "But if currencies are devalued whenever gold reserves feel cramped, the price of gold will simply become an index of the willingness of governments to inflate." The moral will not be lost on the monetary authorities in Washington.

SHORT NOTES ON CURRENT ARTICLES

The fight for Algeria - By a Special Correspondent

The Economist, London, January 24. 1959, pp. 325-326 and January 31, pp. 417-418. The first of these articles describes the political and military problems which must be solved through social and economic changes. The second article deals with the problem of economic improvement which presents far more difficulties than is generally realized. The key to the problem lies in the oil and natural gas resources of the Sahara. It is hoped these will provide a cheap source of energy for the industrialization of Algeria. At best, however, it will be a long time before the country will be sufficiently modernized to support its rapidly growing population.

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No. 1724
February 20, 1959

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GREAT BRITAIN

How the consumer boom has been financed
The Times, London, January 20, 1959, page 12

One of the intriguing questions of the past few months has been why both savings and consumer spending have been able to rise so sharply at much the same time. As the latest retail figures show, shop sales in the final quarter of last year were some 5 per cent above the figures of 1957, compared with a mere 1 per cent in the third quarter. At the same time National Savings have continued to find strong support and the building societies managed to attract growing funds throughout December. How then has consumer expansion been financed? A large part of the answer is supplied by the latest hire-purchase figures (just published) and by the recent annual statements of the clearing bankers.

The rise in consumer spending in the closing months of 1958 is now beyond doubt. The Board of Trade now talks of "a sharp increase in activity" in the fourth

quarter and estimates that higher prices accounted for rather less than half of the increase in the value of sales, leaving what it terms "a significant increase in volume." Although reliable preliminary estimates are not yet available for the different sectors of the retail trade, the Board of Trade states that "the indications are that sales by household goods shops again show a big increase on the previous year's level." These trends are amply confirmed by the figures of television sales in November. According to the British Radio Equipment Manufacturers Association, dispatches of television receivers in November (the first full month after the removal of all controls on hire-purchase) totalled 345,000. These were 47 per cent higher than the two-year average (1956-57) for the month and 40 per cent higher than in November 1957. Sales of radio receivers were 9 per cent and 14 per cent higher, respectively.

The latest official figures show clearly how this consumer boom has been financed. According to the Board of Trade, retail activity in November led to "an estimated increase of £ 38 million in hire-purchase and other instalment debt for durable goods." The debt owing to finance houses rose by £ 17 million, mainly for cars, and that owing to household goods shops by £ 21 million. Rather more than half of this increase in debt to the household goods shops is accounted for by furniture and furnishings and the rest by radio and electrical goods and domestic appliances. Total hire-purchase debt at the end of November is estimated to have been £ 565 million.

Finance has also been provided by the banks. It was revealed that up to the end of December the Midland Bank had made over 45,000 personal loans for sums averaging about £ 160, and that the amount outstanding on them was nearly £ 7 million. Over one-third of the loans by number, and over one-half by amount, have been for the purchase of motor vehicles. Loans have also been used for financing furniture and for repairs, decorations, or improvements to premises. It was also revealed that the introduction of the personal loans service has led to a "marked acceleration of the growth of the Bank's day-to-day business on established lines." The number of current accounts opened in recent months has been "larger than the numbers recorded over a long period preceding the innovation." The "little man," who suffered so much from the credit squeeze, has naturally been the first to take advantage of the new facilities. In short, the banks' new loan schemes and the rise in hire-purchase business seem to have enabled consumer spending to rise without reducing personal savings.

AUSTRALIA

Capital flow to Australia

The Financial Times, London, February 2, 1959, page 9 - From Melbourne

Australia's overseas reserves fell by only £A 25 million ($56 million) in the second half of 1958, according to the Treasury Bulletin just issued. At the end of December these reserves stood at £A 500 million, although there was a deterioration of £A 84 million in trade results as compared with the same period last year.

Commenting on these figures, Mr. Holt, the Federal Treasurer, said it showed that Australia's balance of payments situation was getting strong support from overseas at a time when trading terms were against her. It was undoubtedly "a sign of confidence which overseas investors had in Australia's economic future."

Part of the improved rate of capital inflow had been produced by loans raised in London and in New York during the half year, but information suggested that there had been a higher rate of investment by overseas companies.

The Bulletin showed that estimated deficit on current accounts in the second half of 1958 was £A 130 million, but this was offset by capital items totalling £A 105 million, 43 million greater than for the comparable period in the previous year. New private capital inflow was £A 37 million higher at £A 73 million, and official borrowing reached a net total of £A 15 million, an increase of £A 8 million. The main cause of the fall in export earnings was a 34 per cent decline in wool prices. Meat was the only important export commodity to show increased earnings.

PAKISTAN

Pakistan Bank Rate raised to 4 per cent
The Times, London, January 15, 1959, page 14 - From Karachi

The State Bank of Pakistan raised the Bank Rate, effective January 15, from 3 per cent to 4 per cent. The announcement came as a surprise to both business and trade circles. The immediate reaction of observers was that the rise in the Bank Rate was part of Mohammad Shoaib's, the Minister of Finance, plans to call a halt to inflation. It was seen as tending to damp industrial expansion but not act in conflict with the export bonus scheme presented by Zulfiqar Ali Bhutto, the Minister of Commerce, the same day.

Export bonuses
The Financial Times, London, January 15, 1959, page 5

The Minister of Commerce has described Pakistan's new export bonus scheme, due to take effect on January 15, as a "bold experiment." He called on the business community and the public in general to give it a fair trial. He hoped that under a liberal incentive plan exporters could be induced to make an all-out effort to expand export trade. "Twenty to 40 per cent of foreign exchange earnings will be made available for the issue of bonus licenses to exporters for the import of goods on a basis of priorities determined by market conditions and not by Government agencies." Control of foreign exchange, he added, would be fully centralized through the State Bank.

Under the new scheme the import of almost all major requirements of trade and industry would be permitted. Price control would continue to operate within this liberalized scheme until it was felt it could be dispensed with.

FRANCE

Bank Rate cut to 4-1/4 per cent
The Financial Times, London, February 6, 1959, page 1 - From Paris

Effective February 5, the French Bank Rate has been reduced by 1/4 per cent to 4-1/4 per cent. This represents a cautious move on the part of the Government to produce cheaper credit in an effort to fight recession by encouraging industrial expansion. A break in the tight money policy of the Government and the Bank of France occurred also in October 1958, when the Bank Rate was reduced from 5 per cent to 4-1/2 per cent.

Capital inflow
The Financial Times, London, February 3, 1959, page 7 - From Paris

The Ministry of Finance has announced that the equivalent of $400 million has come into France since devaluation. Although it has not been stated officially, this influx of capital comes from three main sources: 1) The return of capital which, legally or illegally, was exported during November and December when devaluation was "in the air." 2) Dollars, marks, and other foreign currencies brought in to use on the Paris Bourse for those foreign stocks which are now available to buyers. This movement has been strongly encouraged by franc convertibility for non-residents of the franc zone, a fact of particular importance to United States investors. 3) Some capital has been returned to France as a result of the amnesty granted to Frenchmen who have held capital abroad illegally since the war.

RUMANIA

More Communist aid for Rumania
The Financial Times, London, January 30, 1959, page 5

A new chemical works for the manufacture of cellulose from reeds -- reportedly the largest in Europe -- is now nearing completion at the Rumanian Danube port of Braila and is scheduled to produce cardboard early this year. Its raw material is to be gathered on 1,250,000 acres of swamp in the Danube delta which have already been dotted with numerous raised platforms and criss-crossed by some 50 miles of dams to enable the harvesting of up to 3 million tons of reeds annually. This quantity will be processed into 200,000 tons of cellulose for the paper and man-made fiber industries and into a wide range of by-products.

This Rumanian project is being assisted by Poland, Czechoslovakia, and East Germany, and is one of the many similar joint industrial undertakings. Russian aid in the past ten years has included delivery of 56 complete plants of various descriptions.

The showpiece of future Rumanian development will be the Borzesti chemical works, based on the crude oil and salt resources of Valea Trotusului. The plant will be equipped with cracking installations with an annual capacity of 500,000 tons, and its output will include 50,000 tons of synthetic rubber and 100,000 tons of various raw materials for plastics. Among other Soviet-sponsored projects is a 400,000-ton capacity nitrate fertilizer plant. In addition to the development of the petro-chemical industry, the scheduled re-equipment and retooling of Rumania's oil industry will call urgently for Soviet help.

JAPAN

New currency plans
The Financial Times, London, January 22, 1959, page 5 - From Tokyo

In the wake of the restoration of partial convertibility to most European currencies, Japanese Government officials and businessmen have been expressing serious concern over the eventual effects the move will have on Japan's own trading position. Their fears are centered around two main points: the feeling that the easing of restrictions on European currencies will encourage outside nations to

trade with Europe, and the certainty that the combination of partial convertibility and the Common Market will encourage European nations to trade among themselves to the exclusion of nations outside the area.

The most noticeable reaction to the European move has been the fact that, for the first time since well before the war, responsible Japanese officials have suddenly begun saying that Japan's long-term aim is to make the yen at least partially convertible. Discussions on specific plans for the liberalization of trade and exchange controls have now started. The Governor of the Bank of Japan -- an institution which is extremely conservative in its financial policies -- has commented that it was now Japan's aim to proceed toward the goal of convertibility slowly and steadily.

The Japanese feel that they are particularly vulnerable to the easing of financial restrictions by important competitors, because Japan still maintains some of the strictest currency controls in the world. The basic Japanese attitude toward the European financial reshuffle has not yet been decided, however. The Finance Ministry is believed to feel that Japan should abolish as soon as possible its previous classification of trade into the dollar, open account, and "soft currency" areas. Obviously, this financial division now loses much of its significance and the Finance Ministry wants to change it into a "convertible currency" and "soft currency" division.

Private business, of course, wants restrictions lifted to an even greater extent, but the Ministry of International Trade and Industry and the Bank of Japan are reported to be taking a more cautious approach. Executives of the nation's biggest trading companies have asked the Government to expand the number of designated foreign trading currencies. They want several "soft" currencies, including the Australian pound, the Indian rupee, and the Hong Kong dollar, specified as "standard" trading currencies. At present, it is pointed out, there are at least 38 items which can be bought with sterling, but not with dollars. In the light of sterling's new convertibility this is quite unrealistic, it is claimed.

CHINA (COMMUNIST)

Communes are changing China's economic structure - From Hong Kong Internationale Wirtschaft (Weekly) Vienna, Jan. 3, 1959, sec. 2, p. 1 (in German)

The formation of People's Communes, which are to be the nucleus of the new political structure, will result in fundamental changes in the economic structure of China, in production, distribution, and consumption. At a conference last October, which discussed exclusively the economic problems arising from the establishment of People's Communes, the following decisions were arrived at:

1) The Commune takes over, at the lowest level, the organization of finance and trade under the supervision of the Party. The technical direction remains in the hands of authorities on finance and trade. 2) The Commune shall, without reservation, carry out the planning and economic policies of the State. 3) The Commune will be taxed at a general rate which will be fixed by the central authorities.

In spite of these regulations, the Chinese Communists have not yet found a uniform and final solution to the problem of the economic structure of the Communes.

At the moment everything is unstable, innumerable experiments are being carried out, and the relationship between the Communes and the State remains a puzzling problem. One contradiction is already apparent: the Commune is to be an independent, self-contained unit, yet all planning and directing is done centrally. Therefore the monopoly of buying and selling belongs to the State. The prices in a Commune must also conform to prices fixed by the State.

Private property holdings have disappeared entirely, the process of equalization has been completed, and wages have been standardized. But even here no final solution has been reached. Some Communes take practically entire care of their members, they guarantee food, clothes, shelter, medicine, maternity subsidies, etc. Other Communes guarantee less and often provide only free food. There are also great divergencies, often from 3-15 yuan per month, in the cash payments which some Communes grant to their members. These cash payments represent really no more than pocket money to be spent for cigarettes, sweets, and beverages.

Extensive changes have occurred in the trade sector. Nowadays purchases for the Communes are made centrally and in large quantities. Many household items such as pots and pans, spoons, stoves, etc., have become useless. In their stead more thermos bottles are needed (in which to carry hot water from the communal kitchens), more wash basins for the community wash rooms, more paper and penholders for the new schools and offices, more lamps for night work, and more alarm clocks for the dormitories.

To a great extent the Communes are to be self-sufficient units. Each Commune is to manufacture its own steel and put up plants to produce all manner of consumer goods. Above all, the Communes are to be self-sufficient in the production of tools and agricultural machinery. The light industries are to use as few metals as possible and in their stead utilize bamboo, clay, and glass. Metals for the most part are reserved for heavy industries which will continue to be supervised by the State.

The Communes are placing large orders for clothing which are impossible to fill. The domestic demand for textiles, which are an important export item to South-East Asia, is said to have risen by 200 per cent. In that way China, whose 650 million customers have been promised an improvement in their standard of living, could easily have been turned into a large consumer market. However, China lacks not only foreign exchange but also suitable export articles and thus cannot buy consumer goods abroad. Another deterrent to the export market is the standardization of merchandise bought in huge quantities by the Communes. If the demands of the Communes are to be satisfied, China would have to build up its light industries extensively, at the expense of the heavy industries. But it is quite probable that the demands from the Communes will be ignored.

The trade departments of the Communes have practically become mere distribution centers. The Communes may not trade directly one with another; all purchases and sales must be transacted through the State. This will produce many bottlenecks in distribution. This policy is aimed at the black market which has deprived the State of much-needed revenue. The Communes also are to have their own finance center which is taking over the functions of the former finance cooperatives and which, at the same time, is the agent for the People's Bank. Among other operations, it is charged with the granting of loans, the raising of capital, and the transaction of all payments.

Through the creation of these Communes Peking apparently is planning to push the economic development of the country. This, if done with restraint, could well be accomplished, for the Chinese masses -- humane considerations do not enter into the picture -- have without exception become a part of the Commune's working plan under military discipline. But it seems that recently ideological-political considerations, not economic ones, have gained the upper hand in Peking.

ARGENTINA

Main export items taxed
The Financial Times, London, January 12, 1959, page 5

The Argentine central bank has announced taxes on the country's staple exports, which will in future be negotiated under the free exchange rate peso system. A ten per cent tax, technically known as "retention," will be applied to cattle and sheep on the hoof, and to certain frozen and other meat products. A twenty per cent "retention" tax will be levied on a variety of other exports, including cereal grains and vegetable oils. The announcement, coupled with the list of taxes on imports made public a few days previously, provides a framework for the new economic policy.

INTERNATIONAL COOPERATION

Progress of the Colombo Plan
The Statist, London, January 10, 1959, pages 50-51

The Seventh Annual Report of the Consultative Committee of the Colombo Plan demonstrates once again the value of the cooperative effort of the countries of South-East Asia. During the year 1957-58, significant progress continued to be made in furthering the development of the countries of the region, though at a somewhat slower rate than in previous years.

In some countries, adverse weather with a decline in food production, inflationary pressures, and heavy imports accompanied by a decline in export earnings caused setbacks; but these setbacks are not likely to reverse the forward movement of economic development as a whole. Substantial progress continued in such vital sectors as industrial capacity and improvement of basic facilities, including roads, irrigation, and land reclamation. The report points out that the internal measures taken in Europe achieved their objective, but the slowing-down of industrial activity in Europe and America resulted in some disadvantage to producers of industrial raw materials. Furthermore, the credit restrictions imposed in Europe tended to reduce the flow of capital to countries outside Europe and to increase the cost of capital equipment. In consequence, most non-industrialized countries had heavy trade deficits and losses in external reserves.

Nevertheless, there was a significant increase in development activity for the area as a whole. Twelve of the fifteen countries in the region have now formulated coordinated development plans. Public investment, particularly in industry and transport, plays a more important part than in the past. However, the predominant position of agriculture and of small-scale industries emphasizes the importance of private initiative. All the countries leave a wide field to private enterprise in medium- and large-scale industry.

No precise estimate is possible of the total value of foreign assistance received by the countries of the area, but the value of aid received during 1957-58 certainly amounted to over $1,000 million, bringing the total of such aid since the beginning of the Colombo Plan to about $5,000 million. During 1957-58, the World Bank made loans to Colombo Plan countries aggregating $311 million. Since June 1958, there have been further loans amounting to $153 million; the total of these now stands at $826 million. Total expenditure on the Technical Cooperation Scheme from the inception of the Plan amounts to $27.4 million. Already nearly 7,000 training places and the services of over 1,000 experts have been made available.

In a chapter, "The Task Ahead," the report remarks on the need for flexibility in planning, especially at a time when exchange reserves have fallen. Experience also indicates the need for ensuring that technical and managerial skills are developed at a rate which will permit the effective use of capital and other available resources. Many countries are now finding that shortages of people with required skills are even more frustrating obstacles than any limitations in capital resources. As the report acknowledges, many countries of the area are now fully aware of the need for continued emphasis on agriculture, a key element in the maintenance of the progress of development. The report again demonstrates the value of cooperation both within the region and between the region and the industrialized member countries of the Plan for the development of South-East Asia. The future of the Plan, at present designed to run until 1961, will be considered at this year's meeting, to be held in Indonesia.

Development of Arab States
The Financial Times, London, January 12, 1959, page 1 - From Cairo

The Arab League Economic Council meeting, held in Cairo, formally brought into existence the Arab Development Organization which will have a capital of £E 20 million ($57 million), contributed by member states in proportion to their annual payments to the League Budget. The meeting also decided on the formation of a temporary Arab Economic Council. Both developments have been advocated for some time by the League's specialized economic committees, and the decisions were spurred by last month's meeting in Cairo of Arab Chambers of Commerce and the Afro-Asian Economic Conference. But, as has frequently been shown before, effective implementation of the desired steps depends on political factors.

SHORT NOTES ON CURRENT ARTICLES

The banking system in the People's Republic of China - By Dr. A. W. Lübbers

Zeitschrift für das gesamte Kreditwesen, Frankfurt a/M., November 15, 1958, pp. 966-967 (in German). The author gives a brief review of the banking system in Communist China, which is subject to Government control. Private banking institutions, of which there were 1,857 in 1947, have dwindled down to three. The writer enumerates the functions of the People's Bank which is at the head of the entire banking system. There exist also a few so-called "joint State-private enterprises" in which the State owns a 50 per cent share, but this type of institution will come to an end in 1962. Some banks carry out special functions, but always under the control and supervision of the People's Bank. The author concludes that the banks in China have no opportunity to pursue an independent financial policy; they are merely functioning as an integral part within the framework of the Chinese Five-Year Plans.

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WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

The case for investment allowances - By Thomas Balogh
The Financial Times, London, February 16, 1959, page 6

In his recent articles in The Financial Times, Sir Roy Harrod has argued that investment should be stimulated, but not by investment allowances /see Weekly Review of Periodicals, February 13, 1959, p. 1/. In the following article, Dr. Balogh presents an alternative view.

An almost complete unanimity now obtains on the need to increase investment in Britain. But there is still disagreement on how this is to be effected. It is claimed that measures directly stimulating investment could do little good, because there is an unproductive capacity of about 15 per cent or more. Therefore a policy calculated to increase consumption should be adopted. Efforts to increase demand for consumers' durable goods, including houses, through an abrupt reversal of credit policy must be redoubled by a considerable cut in income tax as the best means to reflation. One eminent authority indeed claims this policy is the only way to reassure foreign holders and dealers in sterling. In addition it is argued that any direct measures such as increased investment allowances would be "intrinsically unsound," since they palpably represent a "subsidy" and "in the long run involve great burdens to the taxpayer." It is therefore suggested that the proper way to stimulate investment (apart from a general raising of consumption through Budgetary measures) is to lower interest rates by increasing the bank cash available to the market.

I shall argue: 1) That only a very drastic increase in investment and competitive power could in the long run reassure the foreign speculator, whose influence on British policy has become so important since the relaxation of exchange control. 2) It is unsound to argue that such an increase in investment is necessarily dependent on a prior increase in consumption. Indeed it might be contended that in the present state of our balance of payments only an increase in cost-reducing, import-replacing, or export-creating investment would be a safe way to reflation. 3) Investment allowances differ from changes in the long-term rate of interest in their effects on investor and taxpayer only in that they are far more powerful. 4) While a lowering of interest is no doubt desirable, it suffers from a certain lack of flexibility which is damaging to its effectiveness. In view of the postwar pattern of rather rapid changes in the balance of payments, from large surpluses to equally large deficits, it suffers from the drawback of being an even clumsier instrument than either tax measures or direct controls.

There is no need to dwell at length on the first of these points. There is no longer any doubt that the increase in United Kingdom investment has lagged far behind that of our principal competitors. Consequently, the increase in real productivity has lagged far behind theirs. As there is no reason to believe that trade unions in this country will be less insistent on wage claims than elsewhere (unless unemployment is above a certain minimum and the Government exerts its full strength against wage claims) it is obvious that the competitive power of the country is undermined by this lag.

The fact that we have now been reduced to third place both as manufacturing exporters and as shipbuilders should be a serious warning. The recent buoyancy of the balance of payments has mainly, if not exclusively, been due to a fall in the stocks of imported goods which reinforced the fall in import prices caused by the contemporaneous recession in America.

Vigorous reflationary action, if it did not originate in, and was not buttressed by, cost-reducing investment might easily lead to such deterioration in the balance of payments as would evoke adverse speculation in sterling. It is not the low level of income tax but <u>the capacity of British industry to displace foreign competitors in British and foreign markets</u> that will impress the foreign speculators.

The notion that there is some fixed relationship between investment and consumption demand has received authoritative support lately. Nevertheless, postwar experience both in America and in this country shows conclusively that no such rigid pattern can be discerned. If direct measures were taken to stimulate investment, and especially cost-reducing investment, there is no reason to believe they would not be effective. Given the vulnerable state of British industry they would certainly be desirable.

The onus of proof rests on those who claim that British investment would not react to direct stimuli and must be promoted by increasing consumption. There is nothing to lose and much to gain all round by giving substantial, 50 per cent or higher, investment allowances to promote scrapping of old and inefficient plant.

On the relative merits of investment allowances and changes in the rate of interest little need be said. Both a fall in the rate of interest and investment allowances redistribute income and also the incidence of taxation. They both alleviate the burden of those who control investment at the expense of rentiers. In the

one instance it is a decrease in the income of the rentier, in the second a possible increase in his taxes in order to offset the loss of income due to the investment allowances, which effects this redistribution.

It would be wrong to leave the first effect out, and concentrate on the second in arguing the relative merits of the two methods. Nor is it obvious that an increase in investment allowances would burden "the taxpayer" tout court (who is he?). If investment in innovation increased national income this might offset the effect on the revenue of the concessions on investment. It would be possible, moreover, to increase profits tax by the same amount as the anticipated loss of revenue from investment allowances. In that case it would be the sluggish entrepreneur, relying on general deflationary measures for his international competitive power, who would support the go-ahead firms making use of new investment opportunities.

The comparison of the impact of allowances on investment in machinery (as against longer-term investment) is striking. A 50 per cent investment allowance on a machine which lasts five years would work out at a flat rate of 10 per cent per annum, equivalent to a negative rate of interest of that level. Investment allowances in fact (both positive and negative and possibly discriminatory) represent the most potent weapon for stimulating investment strictly in accordance with the rules of the price mechanism.

NEW ZEALAND

How does New Zealand stand? - By Lombard
The Financial Times, London, February 10, 1959, page 3

The fact that New Zealand managed to balance her external accounts in 1958 only by borrowing abroad on a scale that she would probably not be able to repeat in 1959 has been interpreted to mean that the Dominion may run into a new payments crisis before long unless spending is further drastically reduced. But the basic relationship between current account payments and receipts is evidently now a good deal better than it was over 1958 as a whole -- so much so that there may be room for some relaxation of import restrictions even on the assumption that foreign loans will bring in only a relatively modest fraction of last year's sum.

The country's immediate payments outlook has been the subject of conflicting reports. On the one hand it has been suggested that last year's payments results -- they showed that a modest over-all surplus of receipts over outgoings would have been a deficit of very nearly £ 50 million had the Government not resorted to extensive borrowing from abroad -- indicate that the outlook is gloomy. Other accounts speak of the overseas payments situation as having so greatly improved that the Government may be able to think in terms of giving importers a little more latitude in placing orders abroad. Mr. Nash, the Dominion Premier, has himself been quoted as saying that, though there was still a long way to go, the position was much better, the country being "nothing like so far behind as I had expected it would be."

There is no doubt that, if there were no hope of New Zealand giving a better payments performance on the current account side in 1959 than she did in 1958 as a whole, there would be cause for concern about her external finances. For it is hard to see how she could expect to be anything like as successful as she was last year in covering the current account gap by external borrowing. The very fact that the

1958 borrowing program has created some heavy repayment commitments might make it far from easy to tap new sources of development finance. Thus it is doubtful whether New Zealand would be able to count upon covering more than half of a deficit of last year's size by external borrowing in 1959.

Fortunately, however, it is most unlikely that she will have such a gap to bridge. The behavior of trade and reserves figures in recent months suggests that the current account deficit is already running well below the 1958 level and should continue to do so through 1959. Though the fall in income from butter exports played some part in plunging New Zealand into a severe payments crisis at the end of 1957, the main factor at work was the big upsurge in spending abroad that had followed import liberalization; imports by the end of 1957 were running some £ 50 million per annum beyond the levels of a year before. It is of the greatest significance, therefore, that, while exports have continued to show comparative stability, the 1957 bulge in imports now seems to have been largely reversed. Full figures for recent months are not yet available. But it is clear that by the third quarter of 1958 imports were running some 15 per cent lower than a year before and below the levels for the corresponding period of 1956. This suggests that New Zealand has gone a long way towards restoring a balance in her current account payments. There is support for this interpretation in the fact that in recent months it has been possible to allocate the great bulk of the proceeds of borrowing abroad to the reinforcement of reserves.

In short, the Dominion should be able to manage in 1959 without a great deal of borrowing abroad. And to the extent that she can supplement current foreign exchange receipts by that means, she may be able either to speed up the rebuilding of her external reserves or to make a partial reversal of the massive tightening of import controls that took place a year ago.

PAKISTAN

Land reforms
The Times, London, January 26, 1959, page 6 - From Karachi

Decisions on land reform in West Pakistan have been announced by President Ayub Khan after consideration of a report submitted by a commission under the chairmanship of the Governor of West Pakistan. The President said in a broadcast that the decisions would eliminate social and economic injustice and contribute to progressive agricultural economy. A martial law regulation would be promulgated to give immediate effect to the decisions. The chief of these are:

1) No person will be allowed to own more than 500 acres of irrigated or 1,000 acres of unirrigated land. 2) Land in excess of the limit will be taken up by the Government for redistribution to tenants and other deserving claimants. Landlords will be paid fair compensation in interest-bearing bonds redeemable in 25 years. 3) Sitting tenants will be given full ownership. Tenants in congested areas will be accommodated in a program for the colonization of State lands. Tenants will have security of tenure and any enhancement of rents or illegal exactions will be prohibited. 4) All jagirs (assignments of revenues from land and the power to collect them) will be taken up without payment of compensation, and other intermediary interests will be abolished. 5) Fragmentation of holdings below an economic level will be forbidden and compulsory consolidation of fragmented holdings will be effected immediately. 6) A provincial land commission with the Governor as ex-officio chairman will be set up to put the measures into operation.

SWEDEN

Swedish bank venture - Liberal loans for industry
The Financial Times, London, January 29, 1959, page 5 - From Stockholm

Fourteen leading Swedish commercial banks have asked Government approval for a new credit institution to assist minor- and medium-sized business in obtaining long-term credits. The institution would supplement regular commercial banking activities. To be known as AB Företagsfinans, it is to have an initial share capital of 5 million kronor ($965,000). Funds are to be secured through market borrowing to an amount not exceeding eight times the share capital. Loans will be granted for a normal period of 10 years for investment in plant, machinery, and modernization schemes.

While loans as a rule will be granted against regular bank security, the institution would also be entitled to facilitate credits under more liberal forms than prescribed by current banking legislation. Such "confidence" credits would be granted to companies not able to provide full formal security but considered to have satisfactory development potentialities.

BULGARIA

Mr. Zhivkov explains
The Economist, London, February 7, 1959, pages 505-506

Mr. Zhivkov, the Bulgarian party boss, recently made a speech to his central committee and a few days later delivered it all over again to the National Assembly. His object was to enlighten party and people on what to expect as Bulgaria makes the "great leap forward" in its economic development that he first proposed last November.

The prospect is daunting. Mr. Zhivkov envisages changes that, if fully carried out, will make Bulgaria a more exact model of Mr. Khrushchev's Soviet Russia than any other country of eastern Europe. He also makes proposals which smack of Chinese influence and which could have a profound effect on family life; various measures, such as the development of communal kitchens and nurseries, are to help women get out of the home and into the factory, and are to assist them in overcoming "the Philistine petty-bourgeois survivals about life and work" to which housewives apparently are particularly prone.

The most important part of Mr. Zhivkov's "theses," however, is a drastic administrative reform along the lines of the managerial revolution initiated by Mr. Khrushchev in Russia two years ago. In future the economy is to be managed by local bodies from regional centers instead of by ministries from the center. Seven ministries in Sofia are being completely scrapped and the country is being divided into thirty new administrative units. The object is to do away with the "exaggerated swelling of the apparatus," the "departmentality," red tape, and "passiveness" in planning which Mr. Zhivkov freely laments. It does not mean less actual control from the center; on the contrary, Mr. Zhivkov is careful to emphasize that it will mean more. It means too, that a large number of redundant civil servants (according to a Yugoslav journalist, 140,000) will have to be absorbed willy-nilly into industry; but as there is already considerable unemployment, especially in the large towns, this may take some time.

In the countryside important changes are also contemplated; their object is both to raise production and to reach a higher ideological level. Compulsory deliveries are abolished, but the obligation to supply the State with the necessary foodstuffs and industrial raw materials remains. The activities of the amalgamated collectives (their number has now been reduced from 3,450 to 625) are to be enlarged -- by taking over, for instance, local industry and the local trading network -- and they are to make more efficient use of their members' labor in winter as well as in summer. They are also to take over the Machine Tractor Stations -- as was done in Russia just a year ago. Members are being encouraged "voluntarily" to renounce the rents that they are paid for the land they brought into the collective so that the "national ownership" of the land (as in Russia) can gradually supplant "cooperative ownership." The payment of farm workers is also to be reorganized with the object of moving closer to the ultimate goal of eliminating all differences between rural and industrial labor.

These changes are bound to produce at least temporary difficulties and dislocation. But they are designed to secure much greater production, both industrial and agricultural, and production targets have in fact already been drastically stepped up; agricultural output, for instance, is to be doubled this year -- even though the production of some important crops actually dropped last year. Mr. Zhivkov insists that this great leap forward in the country's economic development must be made before it is possible to reach the goal of a substantial improvement in living standards. One can approve wholeheartedly of his goal while remaining unconvinced of the wisdom of his methods.

BRAZIL

Budget for 1959

Bank of London & South America, London, Fortnightly Review, Jan. 3, 1959, p. 7

On December 10 the President of the Republic sanctioned the Budget Law for 1959. Revenue is estimated at Cr. 147,671 million ($1,056 million) as compared with Cr. 130,234 million for 1958, and expenditure at Cr. 156,226 million (Cr. 140,527 million in 1958), foreseeing a deficit of Cr. 8,555 million. Revenue from direct and indirect taxes is estimated to yield Cr. 133,872 million in 1959. The largest item on the expenditure side, an amount of Cr. 42,671 million, is allocated for transport and public works; Cr. 20,529 million is allocated for the War Department; and the Ministry of Education is to receive Cr. 13,224 million. Other items show moderate increases over the figures for 1958.

As the Budget figures for 1959 do not include rises in pay to the military and civil servants that are to become effective during 1959, the actual deficit will be much larger than the estimated Cr. 8,555 million.

CANADA

Rise in Canadian 1959-60 spending

The Financial Times, London, February 9, 1959, page 5 - From Ottawa

The goal of a balanced Budget is beyond the reach of Canada in 1959-60. This is made quite clear by the main spending estimates laid before Parliament. The main estimates, which are bound to be swollen by supplementaries later in the year, come to $5,596 million. This is about $200 million more than the whole of the current

year's spending is likely to reach. Main and supplementary estimates for the present year, already presented, amount to $5,324 million. Not all of these will be fully spent, but the usual lapsings appear unlikely to exceed $125 million.

Against this, final supplementary estimates yet to come are bound to reach somewhere near $200 million, because they must include the deficit on the Old Age Security Fund which was designed to be, but has never been, self-supporting. This year's deficit has been estimated at $190 million. Total spending of Budget funds in the current year will therefore come to about $5,400 million compared with the forecast in last June's Budget of $5,300 million. Revenues may exceed the forecast by almost as much, leaving the deficit for 1958-59 at about $700 million.

In the coming year a deficit of equal proportions now appears inescapable unless revenues are raised sharply either by an increase in tax rates or larger yields from present taxes. The financial community is worried about the increase in statutory payments which cannot be varied from year to year but increase automatically. The biggest increase in the coming year is $160 million for the Federal share of new compulsory hospital insurance schemes being introduced in every province except Quebec and Prince Edward Island. But existing transfer payments, such as family allowances, assistance to blind and disabled persons and to uninsured unemployed will also rise by some $40 million over this year's $578 million.

Defense spending is put at $1,695 million for the coming year, of which $1,680 million is a budgetary charge. This total expenditure will be about $10 million below actual expenditure in the current year, although the charge on the Budget is about $225 million higher because in the current year the Government emptied the special account which had been accumulating against gifts of equipment to NATO countries.

The defense estimates may be misleading because they had to be drawn up before the Government decided whether to cancel an order for supersonic fighters and they contain only $15 million for concluding that program. This intensifies the trend of recent years to reduce the proportion of the defense Budget being spent on the production and purchase of new equipment. While this has been going down, the relentless increase in costs of paying, maintaining, and operating existing forces had held Budget totals up. Very little is provided in the new estimates for installing the new semi-automatic ground environment and missiles which the Government has agreed to adopt for the joint defense of Canada and the United States, and nothing is provided for the re-equipment of Canadian forces in Europe which is becoming an increasingly pressing need.

INTERNATIONAL COOPERATION

The wheat problem
The Financial Times, London, January 26, 1959, page 6

It is important to view the Geneva wheat talks in the right perspective. Even if the new International Wheat Agreement which emerges from them does cover the question of the wheat surpluses, as it must if it is to be at all relevant to current conditions, it cannot be expected to do any more than scratch the surface of the problem. The real solution is in the hands of the individual governments. While they continue to feel that the farming population should have special financial assistance in one form or another, over-production of wheat will continue.

Support prices and subsidies for farmers have been in existence for fully 30 years. A product of the depressed conditions between the Wars, they have in many cases been retained in essentially their original form, largely for internal political reasons. It is unthinkable that there will be a change of attitude over night. Canada and the United States have continued to spend vast sums each year simply financing their stocks, quite apart from other aspects of their wheat policies. These two countries inevitably dominate the outlook, although almost every other country also supports its farmers to some degree or another and must take some responsibility for the position. No one can doubt that the problem is a chronic one. Yet so far there has been no sign of a radical change of approach anywhere in the world.

The forthcoming wheat talks are faced with an almost impossible task. To tackle the wheat problem satisfactorily would require action at its source, which is the level of production, and individual governments have shown themselves unwilling to do this. Nor can it be expected that they would be prepared to submit their disposal programs or their selling prices to international control. These too are essentially a matter for internal policy. The most that can be hoped for -- and this would also need a major change of attitude -- is an international agreement providing for regular discussion of all aspects of the wheat problem, both production and disposal, through the Wheat Council, and possibly also the adoption of certain broad principles which agricultural policies ought to respect. In this way the matter would at least be aired from time to time, some of the worst features might be removed, and antagonism of the sort which currently exists between the major producers might be avoided.

The benefits, if any, from action of this kind would be very long-term. Canada, for example, would have little to gain from it in the short run. It might, of course, mean that the United Kingdom would be prepared to rejoin the Wheat Agreement, though the pricing aspects would also have to be modified first, but Canada's sales of wheat to this or any other country would not be increased as a result. The Agreement in its present form is unworkable and unrealistic, and the United Kingdom is right to refuse to have anything to do with it. Secondly, though international consultation may not amount to much, it is still better than nothing. If the United Kingdom can get the Wheat Agreement broadened in this way it will have achieved a major act of statesmanship, without any gain or loss to itself.

SELECTED ARTICLES FROM REVIEWS OF FEDERAL RESERVE BANKS

(Articles are obtainable from Federal Reserve Bank in cities named.)

Doing what comes naturally /An economic review of 1958/	Atlanta	February 1959	2 pages
Economic recovery and the Sixth District	Atlanta	February 1959	2 pages
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A broader horizon for field warehousing	Chicago	February 1959	3 pages
Agricultural exports at high level - But slipping?	Chicago	February 1959	3 pages
Consumer credit - Headwinds and crosscurrents	Kansas City	February 1959	6 pages
Water availability - A District problem	Kansas City	February 1959	6 pages
Looking into the eyes of a giant /Growth of industrial activity in USA and USSR/.....	Philadelphia	January 1959	12 pages
The economic weather vane	Richmond	February 1959	4 pages

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No. 1720
March 6, 1959

WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Capital Issues Committee - Dead but embalmed
The Economist, London, February 7, 1959, page 513

Persons or firms in the United Kingdom need no longer apply to the Capital Issues Committee to borrow money. The only remaining official control of domestic issues is over redeemable bonus issues, which the Treasury itself is continuing to scrutinize to check tax avoidance. Local authorities and other trustee borrowers are still subject to sanction of the Bank of England of the terms and timing of issues over £ 50,000; and the Bank's agreement is also needed on the timing of industrial issues over £ 1 million. But these arrangements are designed to secure orderly marketing; they are not restrictive.

So after two decades the heavy hand of CIC is lifted from the British economy. There is every cause for rejoicing. The control was irksome, haphazard, and therefore inefficient. If anyone did want to control the private investment in Britain, this was not the way to do it; if they did not, what was CIC's job? That has been the contradiction of CIC in these past eight years of Tory Government. Even now it is not clear that the lesson has been learned. The authorities see the freeing as a relaxation in line with other official measures to stimulate economic activity; not as a clean cut. Is the corollary that the control will return when the economy is again in need of restraint? Certainly that could be the deduction from the form of the relaxation. In the worst bureaucratic manner, the relaxation is wholly discretionary. The Control of Borrowing Order, which underlies the whole structure, is unamended. Borrowers could be obliged to queue up at CIC again without the Treasury having to waive a statutory instrument. Most ominously of all, perhaps, the CIC itself remains in being. The functions of Lord Kennet and his colleagues are now reduced to one -- to examine applications by overseas borrowers. It is difficult to believe that this power would not have been handed over to the Treasury or the exchange control if someone had not been reluctant to see the Committee disappear.

The practical results of the relaxation are likely to be few. Since July the CIC has been instructed to be more liberal. But one incomprehensible decision has been advertised to the world -- the blocking of a rights issue by the Midland Bank. Presumably this will now go forward -- and presumably other banks will follow. Investors have been quick to appreciate this; and after the announcement bank shares moved up sharply.

Relaxing financial controls
The Times, London, February 20, 1959, page 17

On February 19 the Bank of England announced that usance or acceptance credits to finance the trade of third countries will again be permitted. In September 1957, when Bank Rate was raised to 7 per cent, usance credits were restricted to "sight" terms. The ending of restrictions on usance credits follows soon after the drastic reduction in the powers of the Capital Issues Committee and only a matter of weeks after sterling had been made convertible on current account for non-residents. In fact, the new relaxation is the latest of a series of moves in the direction of financial freedom which have been made since July last year, when the credit squeeze was virtually dismantled.

The most important of these previous moves, apart from the successive cuts in Bank Rate, are the following: February 1959 - Substantial reduction in goods for which export licenses are required. End of Capital Issues Committee's control over the raising of new money in this country. December 1958 - Current account sterling belonging to residents outside the Sterling Area made freely convertible into dollars. November 1958 - Export Credits Guarantee Department to match United States terms for sale of aircraft and engines. October 1958 - All hire-purchase restrictions ended. Limits on public investment relaxed. September 1958 - Modification of restrictions on dollar imports. System of Commonwealth loans announced; subordinate development boards etc. to be allowed to come to the London market. Widespread relaxations in hire-purchase controls. July 1958 - Major relaxation in the credit squeeze, notably the ending of control over bank advances.

In spite of the progressive abolition of economic controls mentioned above, a number of important financial restrictions are still in force. 1) Probably the most important control remaining is that on capital account, notably as regards

portfolio investment. British residents cannot normally acquire foreign securities, for instance, except from other sterling holders, and even non-residents do not have complete freedom on capital account -- by contrast with some European countries. 2) The travel allowance for people living in this country is still limited to £ 100 a year, except for Scandinavia, where up to £ 250 is allowed. 3) Dollar imports, especially of consumer goods, are still restricted. These controls apply particularly to durable consumer goods, where some European countries' experience has suggested that potential demand may be large. 4) The Capital Issues Committee still retains control over foreign issues of new money. In recent years there have occasionally been large projected issues from oversea for the London market. 5) Two sets of restrictions which were imposed in the fall of 1957 are also still in force. These are controls on re-financing facilities and the granting of bank overdraft facilities for non-residents.

In addition to these specifically financial restrictions, there are also a number of controls which have financial effects, such as the control of the location of industry. But it is felt in the City that the five sets of controls listed above -- notably those on capital account and the limited travel allowance -- are the most important economic restrictions still in force.

RHODESIA AND NYASALAND

Credit freed
The Times, London, February 13, 1959, page 15

The immediate lifting of the credit squeeze, which was introduced in the Rhodesian Federation a year ago, was announced by the Federal Finance Minister Mr. Donald Macintyre. He told a press conference that banks need no longer restrict lending to the specific limits imposed last year. Restrictions on hire-purchase would be lifted shortly, he announced. He disclosed that although the Federation had an adverse balance of payments last year of £ 53 million sterling, the economic climate had now changed for the better, and over-trading had ceased.

JORDAN

Jordan State Bank to be established
The Financial Times, London, January 29, 1959, page 9

Parliament has approved the establishment of a Jordan State Bank with a capital of 1 million dinars ($2.8 million) to be subscribed by the Government. The Bank will issue currency and supervise financial policy, including gold and foreign exchange transactions.

FRANCE

Reforms for the Bourse
The Economist, London, February 14, 1959, page 620

Early in February the National Council of Credit agreed on the expected relaxations in credit policy. The Bank Rate was cut from 4-1/2 to 4-1/4 per cent and more official finance will be available for medium-term credits. No change, however, is made in the general ceilings on rediscounts at the Bank of France; and the fact that Bank Rate was cut by only 1/4 per cent points to the limited significance of

the relaxation. A gesture has been made to help industry at a time when all the omens point to recession. But the primary aim of official policy is still to achieve external and internal confidence in the franc.

A good start has been made. The gain of gold and foreign exchange in January is described by the Bank of France on a "statistical" basis (that is, after allowing for the lag in the EPU settlement) as over $400 million; and there are reports that the total has now reached $450 million. The bulk of that gain represents a recovery of the December outflow: the Bank of France is now probing the books of the commercial banks to see how far they took part in that speculation.

The next stage in external recovery, to attract foreign investment and encourage Frenchmen to part with their foreign securities and their gold, will be a longer and more difficult one. The French authorities consider that a basic need is to widen the market on the Paris Bourse and to spread the habit of investment in securities to new sections of the people.

An initial batch of reforms was announced together with the Bank Rate decision. Quoted companies in France with balance sheet totals of more than 1 billion francs must now inform their shareholders half-yearly of their balance sheets and profit and loss accounts; moreover, they must now publish details of their investment portfolios. Shareholders in banques d'affaires and financial companies will have a clearer view of what they are buying. At the same time, the authorities have conceded an abatement of the tax on profits from security dealings which, in a country where share prices have risen year by year with the depreciation in the value of money, has encouraged a freezing of existing portfolios. Henceforth, tax will not be levied on sales of shares when the proceeds are reinvested in plant or equipment, in a subsidiary, or in fixed interest securities -- though the tax liability remains and will take effect in the event of sale of these assets or liquidation of the company. The investment community would like to see this liability abolished outright. Hopes are also placed on reduction in the tax on stock exchange dealings; and "structural" reforms on the Bourse are expected in due course. As an interim measure, the authorities have banned direct transfers of securities; the banques d'affaires and investment houses hope that brokers will now reduce their commissions on transfers where the client has already found his customer.

Recession likely to last till winter
The Financial Times, London, February 20, 1959, page 5 - From Paris

The French recession is likely to continue until the end of the fall, according to M. Jeanneney, Minister of Industry and Commerce. In a review of the prospect for French industry, the Minister calculated that the economy would be ready for "a new step forward" by the winter of 1959.

A certain slowing down in the early part of the year was "not too high a price to pay" for economic balance, particularly if industry made good use of the opportunity to re-adapt itself to future needs. Three main grounds for optimism, according to the Minister, were: 1) Devaluation had been drastic enough to give exports a real chance. 2) Repatriation of French capital and the inflow of foreign currency would allow for the development of investments. 3) Some of the biggest private companies were carrying on with their investment programs despite the recession.

Unemployment in France increased by nearly 44 per cent in January; according to figures just released, there were nearly 37,000 assisted unemployed on February 1, compared with 28,000 on January 1. The highest level of unemployment in France since the war was 78,000 on March 1, 1954, with 231,500 outstanding bids for employment.

FINLAND

Bank Rate cut
The Times, London, February 28, 1959, page 11

Finland will lower the Bank Rate by 1/2 per cent from March 1, it was announced. The higher of the country's rates will fall from 8 per cent to 7-1/2 per cent, and the lower from 6-1/2 per cent to 6 per cent. The rates are enforced according to the national and social desirability of the purposes for which loans are sought.

SWEDEN

Capital transactions with foreign countries
Neue Zürcher Zeitung, Zürich, January 22, 1959, section 9 (in German)

Sweden is one country which, because of its comparatively weak foreign exchange position and the lack of confidence both at home and abroad in the stability of the Swedish currency, is obliged to maintain stringent exchange controls in its capital transactions with foreign countries. The authorities point out that this policy is justified because of the dangers arising from the possible loss of considerable foreign exchange in connection with unpredictable shifts in international capital movements such as would occur at a time when speculative tendencies in foreign exchange markets prevail.

As a rule, the Swedish authorities permit direct investment by foreign firms through the establishment of subsidiaries and branches in Sweden. Similar investments abroad by Swedish firms are also permitted if the funds are utilized for "serious projects." For investments in the dollar area, however, proof must be furnished that the particular capital export is necessary in order to increase merchandise exports or that it will yield additional foreign exchange, over and above the regular interest payments.

Security transactions with foreign countries are subject to stringent controls, especially with countries in the dollar area. Purchases by Swedish nationals of securities in foreign countries are not permitted at all. In this connection the authorities point to the great lack of investment capital at home and the danger of a capital flight should there be a rapid deterioration in the value of the krona. In the past year, special restrictions were introduced for transactions in German securities in order to prevent a repatriation of these securities held by Swedish individuals. The sale of German bonds now is permitted only in exchange for German securities.

It is therefore no surprise that investments abroad by a country as rich and as highly developed industrially as Sweden have been kept within a narrow range. Official figures indicate that from 1955 to 1958 the Swedish Government has authorized foreign investments up to a total of 634 million kronor ($122 million). Of

this amount, about 187 million kronor was invested in the dollar area; capital exports to underdeveloped countries amounted to about 286 million. In 1958, Sweden invested 171 million kronor abroad, of which 61 million in the dollar area, and 92 million in underdeveloped countries. Besides capital exports proper for the purpose of increasing capitalization and the setting up of foreign branches of Swedish firms, these figures include also long-term merchandise credits.

PORTUGAL

Economic survey
Bank of London & South America, London, Fortnightly Review, Jan. 31, 1959, p. 120

At a Press Conference on January 15 the Minister of Economy, Senhor José Ferreira Dias, spoke about the problems of reorganization and expansion facing Portuguese agriculture and industry. He pointed out that, while 49 per cent of the population was engaged in primary activities, production from this source accounted for only 26 per cent of the national product. These figures suggested the existence of defects in organization of which the low level of production and wages and the high proportion of unskilled labor were symptoms.

Turning to industry, the Minister emphasized the need for new, and the reorganization of existing, industries. The State had played a part -- although on a somewhat limited scale -- in the creation of new activities such as the steel industry. In the task of reorganization, however, little had hitherto been done because of the general feeling against State interference. That policy would now be changed: the State would assist in the reorganization of industry and, through the Laboratório Nacional de Investigação Industrial, an attempt would be made to give it a rational basis. The Minister mentioned the expansion of the mechanical engineering industry as deserving to receive priority for the following reasons: it would employ a large technical labor force; domestic production of mechanical equipment was at present insufficient to meet demand; and there were fair prospects for exporting equipment manufactured in Portugal to underdeveloped countries in the process of being industrialized.

The Minister concluded by saying that the people of Portugal were assisted by a number of factors that some larger countries lacked, namely, a sound currency, good credit, a flair for industry, and confidence in their own capacity.

SWITZERLAND

Swiss cut Bank Rate to 2 per cent
The Times, London, February 27, 1959, page 13 - From Zürich

The Swiss National Bank reduced its official Bank Rate from 2-1/2 per cent to 2 per cent, effective February 26. The present rate has lasted since May 15, 1957, when it was increased by 1 per cent. The decrease has been expected for some weeks, since the liquidity of the market and the decline in interest rates had left the Bank Rate far behind.

The Bank's statement stresses the fact that the decrease of the Bank Rate is of a purely technical character. Interest rates in the money market have declined considerably below the Bank Rate, and even the yield of Government bonds has again fallen below 3 per cent. This development compelled the National Bank to reduce its rate if it wanted to keep its contact with the market. The market conditions

would have allowed an even lower Bank Rate, but the monetary authorities seem to have reserved this step in case of a further decline in the market or for a later recession. The Bank Rate decrease is accompanied by an appeal to the banks to apply a selective credit policy.

The immediate effect of the Bank Rate reduction on the Swiss foreign exchange market has been an increase in the dollar rate from 4.316 to 4.32 and of the pound sterling from 12.128 to 12.14. The present weakness of the Swiss franc is explained by the fact that the two recently created Swiss investment trusts for European securities have led to a high demand for foreign exchange, amounting to many tens of millions of Swiss francs.

JAPAN

Bank Rate cut
The Times, London, February 19, 1959, page 16

The Bank of Japan announced that it would lower its official rediscount rate to 6.935 per cent from the present 7.300 per cent, effective February 19. This is the third cut in the Bank Rate since last June, when it stood at 8.395 per cent. Financial circles said the move indicated the Bank believed the economic trend in Japan had been stabilized after the 1958 recession.

COLOMBIA

Finance - Budget for 1959
Bank of London & South America, London, Fortnightly Review, Jan. 3, 1959, p. 14, and Jan. 17, p. 57

The national Budget for 1959, totalling 1,544.4 million pesos ($214 million, calculated at the principal selling rate of 7.22 pesos per dollar in December 1958, as quoted by the International Monetary Fund), became law on December 15. The sources of revenue are as follows: Direct and indirect taxation, 1,343.0 million pesos; concessions and rents, 131.8 million; service charges and fines, 69.3 million; and non-recurring special income, 0.3 million pesos. As to proposed expenditure, the Ministry of Finance has been allocated 363.5 million pesos (including 231.2 million for service of the public debt). An amount of 363.2 million pesos has been set aside for Public Works; the War Ministry is to receive 240 million pesos; and an amount of 155.9 million pesos is to be spent for education. Other departments are to receive smaller amounts.

INTERNATIONAL COOPERATION

From European Payments Union to European Monetary Agreement
The Economist, London, February 7, 1959, page 514

The British Treasury statement again embraces "gold and convertible currencies," including the West European currencies that have lately been freed (though formally these currencies, like sterling, are not de jure convertible). All but a small portion of the reserves are in gold and dollars. No mention is made in the return of any currencies that may be brought into the new multilateral clearing of the European Monetary Agreement, which has replaced the European Payments Union. Britain, not surprisingly, appears to have made no use of the clearing in January. It

is likely that EMA will be used for clearing only in abnormal circumstances, since the terms of its settlements are at the extremes of the notified exchange margins that are most unfavorable to the central bank taking the initiative in using the clearing. Unless those margins or the parities are changed during a settlement period, better terms will be available in the open market.

Details have now been worked out on the liquidation of the EPU. Britain has incurred bilateral debts of $466 million, but it has bilateral claims (mainly against France) of $88 million; and it is able to offset, under the existing agreements, some $146 million of its debts against postwar debts owed to Britain by Germany, the Netherlands, and Austria. All but $82 million of the gross debt is covered by the existing funding agreements, under which Britain pays about $3 million a month in total; and since no account has been taken up to now of Britain's EPU claims, the net effect of the EPU liquidation is not expected to involve any net increase in Britain's commitments.

The residual assets of EPU have now been disbursed. Under the EMA agreement, $113 million has been transferred to the European Fund; and a further $123.5 million is being held in suspense to be paid into the Fund dollar for dollar as subscriptions of member countries rise above $148 million. The remaining $167 million of gold and dollars held by EPU has been distributed to creditors -- mainly Germany, which has received $130 million. Under the EMA arrangements, EPU is to provide $272 million (including claims on Norway and Turkey) to the European Fund and $328 million to member countries. But the scale of members' subscriptions is now under review, and for the time being the European Fund is working with $113 million. This is sufficient to provide the "float" for any multilateral settlements that take place; an addition to its resources will become urgent only when the Fund receives the first requests for short term (up to two year) advances to countries in payments difficulties.

SHORT NOTES ON CURRENT ARTICLES

The new currency system in Europe

The Banker, London, February 1959, pages 82-88. This article discusses the significance of the shift from the EPU to EMA. Under the new agreement each country adhering to it must accept certain obligations. The chief practical result of the establishment of the EMA is that intra-European payments in all likelihood will be settled by the central banks by day-to-day intervention in the foreign exchange markets, thus normally the EMA will only play a minor role in the settlement of these accounts. The article also gives the figure for "interim finance" for each participating country and its contribution to the European Fund, outlines the technical changes arising from currency convertibility, and indicates the degree of trade liberalization achieved by each country.

Anatomy of British Trade Unions

The Economist, London, February 21, 1959, pages 676-679. This is a special survey describing the character of the Unions and their role in the postwar economy. One article in particular contains a review and analysis of the trend in wage demands and sets forth certain conditions for breaking the price spiral in Britain. A future issue of The Economist will feature a discussion of the internal politics of the British Trade Unions.

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WEEKLY REVIEW OF PERIODICALS

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GREAT BRITAIN

Terms of the agreement with Egypt

The Manchester Guardian Weekly, Manchester, March 5, 1959, page 3

Britain has waived her claims for the value of the Suez base and the cost of clearing the Canal and Egypt has waived hers for war damage. This was made clear when the Chancellor of the Exchequer told the Commons the terms of the financial agreement which was signed in Cairo on February 28.

The principal points of the agreement are that Egypt will release the property of British citizens which was sequestrated in 1956 and will pay a lump sum of £E 27.5 million to compensate British owners of property which has been nationalized or compulsorily acquired. The sum has been accepted by Britain to cover also any damage to the property that is now to be returned. Egypt is to pay £E 3.5 million of the lump sum in sterling at once and the balance in a year's time. Meanwhile, the British Government will hold in London British securities deposited by Egypt worth £ 25 million as collateral security. (One assumes, although the Chancellor did not say so, that there will be few repayments out of the lump sum until the balance has been received in a year's time.)

The Chancellor's statement did not make either side of the House at all happy. Nor, indeed, did Mr. Amory sound very cheerful himself. His statement was awkwardly phrased and he read it badly. Members on both sides suspected that the lump sum payment would not cover the value of British claims, and that the poorer claimants might not be able to afford either to go to Egypt or to employ an agent. In addition, Labor asked how much the financial settlement and the waivers had added to the cost of the Suez adventure. The Chancellor estimated that the claimants' value of the property to be desequestrated was probably about £ 130 million, but the value of the property that had been nationalized was about £ 45 million for business purposes and a few millions more for land.

No hint was given by Mr. Amory that the Government would make up or contribute towards any deficiency between the owner's share of the lump sum and the established value of the property. Neither was there any mention about any other source of compensation, though clearly the British Government has got all it is going to get on this account from Egypt. Mr. Amory reiterated the principle on which this and previous Governments have acted -- that this Government cannot accept liability for all damages done to British property overseas.

The next stage is the settlement of individual claims, which will be supervised in Cairo by a British representative and his staff, who will be accorded diplomatic immunities and facilities. Their duties will be strictly limited to the application of the financial agreement. The Swiss Ambassador in Cairo will continue to represent Britain diplomatically until Britain and Egypt agree to reopen diplomatic relations. /The full text of a White Paper, containing the terms of the agreement, is given on page 10 of The Financial Times for March 3, 1959./

Arbitrage deals allowed in foreign notes
The Times, London, February 25, 1959, page 14

Authorized banks are now allowed to engage in arbitrage transactions in foreign bank notes, for the first time since the war. The import and export of the bank notes of the rest of the Sterling Area, which remained restricted when the import of United Kingdom bank notes was freed 12 months ago, is now also permitted. These concessions go far enough to remove virtually all the remaining restrictions on dealings in foreign bank notes by authorized banks in the United Kingdom. The only limitations remaining are those imposed not by United Kingdom foreign exchange regulations but by those oversea sterling and foreign countries which still restrict the use and import of their own bank notes.

The introduction of arbitrage facilities for foreign bank notes should, in particular, considerably strengthen the competitive position of the London market vis-à-vis Switzerland, which so far since the war has held an unchallenged lead in this field. And there seems every likelihood that London will make considerable use of the new possibilities. London is the only financial center, apart from Switzerland, whose market in foreign notes commands international status.

The return to sterling convertibility has facilitated the operation of this market to some extent, but the absence of arbitrage facilities proved a major limitation to its development and competitive strength. For this reason, the lifting of the remaining restrictions is welcome. For obvious reasons, dealings in foreign notes are more strongly influenced by seasonal -- and especially holiday -- factors than dealings in foreign exchange. The full impact of the new concessions may, accordingly, not be seen until the summer.

INDIA

Budget deficit for 1959-60
The Financial Times, London, March 2, 1959, page 9 - From New Delhi

Mr. Morarji Desai, the Finance Minister, has presented a Budget for 1959-60, showing an estimated revenue deficit of Rs. 820 million ($172 million), of which Rs. 583.2 million is left uncovered, the remainder being met by new taxation. Capital outlays amount to Rs. 4,200 million, loans to States to Rs. 5,250 million, and debt repayments to Rs. 1,300 million totalling, with the revenue deficit, Rs. 11,570 million. The Budget includes a total provision of Rs. 8,430 million for implementing the Five-Year Plan. Out of this amount, Rs. 2,580 million will be given as assistance to the States. In addition, the railways will be spending Rs. 390 million from their own resources and the States Rs. 2,390 million.

The Minister introduced a scheme to simplify company taxation. The wealth tax and excess dividends tax on companies are to be abolished. In their place, flat rates of 20 per cent income and 45 per cent super tax will be imposed. Foreign companies which declare dividends outside India will, of course, not be subject to the scheme. However, some adjustment is necessary in rates applicable to them on account of withdrawal of the wealth tax on companies. It is therefore planned to raise the present rate applicable to such companies from 61.5 per cent to 63 per cent with effect from 1960-61. The company deposit scheme, which was in operation during 1957-58, but suspended during 1958-59, will also be abolished.

It is proposed to clarify the Government's intention underlying the five-year tax holiday for new industrial enterprises that exemptions will not be available to enterprises which are formed by transfer to such firms of assets previously used in any other business. Beginning 1960-61, scrip issues made out of share premium accounts will be taxed as other scrip issues. Beginning with 1959-60, the wealth tax payable by individuals and Hindu undivided families will be raised by one-half per cent. Duties on a number of commodities, such as Diesel oils, silk and rayon fibers and fabrics, tires, certain vegetable products, and cigarettes are being raised.

NORWAY

New stabilization plans
Neue Zürcher Zeitung, Zürich, January 23, 1959, section 8 (in German)

After fruitless negotiations with the unions and the leading economic organizations for the purpose of bringing about a "voluntary" stabilization of prices and incomes, the Socialist Government has taken several measures designed to keep the cost of living index at its present level of 163 (1949=100). It was feared that in March the index would rise beyond the "red line" (166 points) and thus would call forth a new wave of increases in wages and agricultural prices. Despite all warnings, it seems that the Norwegian Socialists will again resort to a policy of subsidies. Beginning March 1, an amount of 100 million kroner ($14 million) is to be set aside to reduce the price of milk and cheese and in this way bring down the cost of living index by about two points. Industry, commerce, and agriculture have been requested to contribute to the stabilization of the cost level by reducing certain prices; the price index is thereby expected to drop by one point or at least by two-thirds of one point.

At the same time some tax reliefs have been proposed. The tax on reserves of companies is to be decreased from 8 per cent to 4 per cent. Beginning January 1, 1960, the Government will temporarily suspend customs duties on imports of machinery which have been a deterrent to new investment. Higher tax exemptions for individuals and a reform of the sales tax are under discussion and may be introduced at a later time. A thorough study with a view to relaxing the limitation and the tax on dividends is also planned.

In economic circles the proposed subsidies are causing great concern, for experience during the postwar years has shown that they are not the answer to the problem of inflation. Only a year ago the subsidies were reduced in order to relieve the pressure on the Budget and on demand. The recent increases in the price level are above all a result of these measures. The proposed tax reliefs, however, are widely welcomed as a proper, although inadequate, step. The report of the Paulson Committee last December had recommended even more extensive measures for tax relief as well as other financial and monetary reforms (for instance, reduction in budgetary expenditures, certain increases in interest rates to encourage savings, etc.). The new half-way stabilization measures must be interpreted as a compromise between the old guard of economic planners and the "liberal" wing of the Norwegian Workers' Party. Apparently the Government is not able to convince the unions to drop their wage claims, although in the light of the current economic situation and a stagnating production they seem hardly justified.

DENMARK

New price and wage increases
Neue Zürcher Zeitung, Zürich, February 5, 1959, section 8 (in German)

After having remained relatively stable from mid-1957 to mid-1958, the Danish consumer price level began to rise again in the second half of last year. The official cost of living index (1914=100) during that time increased from 440 to 448 points (January 1959), or about 2 per cent. This rise is mainly the result of an increase in export prices for important agricultural products (milk, cream, butter, cheese, and meats). In addition, there were rent increases, which enter into the calculation of the cost of living figure once a year, in January. Individual income taxes, which rose by an average of 5.1 per cent in 1958, are also included in the official cost of living figure. All in all, there was a rise of 2.2 per cent in the cost of living during the last year, whereas in 1957 it had risen by only 1.3 per cent.

On the basis of these recent price rises and in accordance with existing agreements, the workers and pensioners are entitled to cost of living allowances amounting to about 300 million kroner ($43 million). Economic circles point out that this new rise in costs will have a detrimental effect on the competitiveness of Danish industrial products in world markets, unless new improvements resulting in lower production costs can be introduced. Fortunately, a cumulative upward movement of prices and wages is not likely to take place in Denmark at the moment. The general rise in wages will probably have a stimulating effect on the demand for consumer goods and thus act in support of the prevailing tendencies toward an economic upswing.

SPAIN

Finance - Limit of credit operations determined by decree
Bank of London & South America, London, Fortnightly Review, Jan. 31, 1959, p. 124

On December 29, 1958, the text of the law on medium- and long-term official credit institutions was published. The law establishes that the Minister of Finance, in agreement with the Cabinet, will determine the maximum limit of the credit institutions' annual credit operations. Investment capital may be raised by the Ministry of Finance through loans from international agencies, foreign governments, and the Banco de España, Treasury advances, and the investment certificates (cédulas para inversiones) created by the law.

The total value of investment certificates to be issued in each financial year will be determined by decree; the certificates may be guaranteed by the Government, and exempted from the taxes normally imposed on the issue, negotiation, transfer, and transmission of share capital. They may be taken in pledge by the Banco de España, but only in special cases authorized by the Ministry of Finance. The law further authorizes the Minister of Finance to fix the minimum amount (which may not exceed 40 per cent) of public funds to be held by the commercial banks, in the form of a percentage of current, savings, and fixed deposit accounts. The percentage of public funds that must be held by banks in investment certificates will also be fixed by the Minister.

NEPAL

U. S. dollar exchange rate
The Times, London, March 4, 1959, page 15 - From Katmandu

The State Bank of Nepal, for the first time, has fixed rates of exchange for American dollars in Nepal. Rates fixed are: $100 to 472.5 Indian rupees for buying, and $100 to 481 Indian rupees for selling. The rate of exchange between Indian and Nepali rupees is already fixed at 100 Indian to 150 Nepali rupees /at this ratio, the middle rate for Nepali rupee is equal to 13.985 U.S. cents/. The State Bank notification did not mention how much control the Government would exercise on dollar transactions in the Nepal market.

CHILE

Economic policy
Bank of London & South America, London, Fortnightly Review, Jan. 17, 1959, pp. 53-56

In a series of broadcasts delivered towards the end of December, President Alessandri reviewed the disastrous nature of the country's economic situation and outlined the Government's plan for recovery. The main objective, after arranging for national finances in 1959, is to strive to increase production and arrest the rise in unemployment.

The President stated that in 1957 and 1958 industrial production was more than 8 per cent below the level in 1956, and that for the past 20 years the increase in food production had not kept pace with the rise in population. The crisis in the country's foreign trade position, the President said, had been caused by misguided commercial and exchange policies, and had been aggravated by the fall in

the price of copper. Export proceeds were insufficient to cover essential imports, and the country had to incur heavy dollar liabilities during recent years to meet these needs.

Moreover, the increase in government expenditure and the cost of social services were completely out of proportion with the growth in population and in production. The country had now reached a position where it was impossible to balance the Budget or cover the social benefit expenses through normal taxation. Criticizing past efforts to check inflation, he pointed out that economic recovery required the courage to apply simultaneously and without hesitation a combination of coordinated measures designed to strengthen the economy and improve the standard of living of the people. The President proposed to allow a short acceleration to inflation so as to provide the economy with sufficient impetus to break through the present stagnation. The inflationary effects would be counteracted during 1959 by the application of remedial measures which, he was convinced, would result in a lower increase in the cost of living during 1959 than occurred in 1958, but at the same time unemployment would be greatly reduced. To compensate workers for the increase in prices brought about by the Government's policy, an extra wage adjustment would be made in addition to the usual annual review. This wage modification would be graduated in order to give more to those who are at present earning least.

The President announced that the budgetary deficit in 1958 was estimated at 24,000 million pesos ($24 million at the rate of 1,000 pesos per dollar) and $60 million, bringing the accumulated deficit to 126,000 million pesos and $100 million, or a total of 226,000 million pesos if the foreign currency obligation were converted at 1,000 pesos per dollar; the portion of this debt considered to be immediately demandable was 75,000 million pesos and $23 million. The deficit for 1959 is estimated at a minimum of 75,000 million pesos, plus a further sum of 70,000 million pesos required for salary adjustments for civil servants and the armed forces, making a total of 220,000 million pesos required for indispensable needs during 1959 in excess of estimated normal receipts. The new system to be applied to import deposits should make available an amount of 10,000 million pesos, leaving 210,000 million pesos to be found from other sources.

The wage adjustment of 70,000 million pesos is to be financed by taxation and by increased Customs receipts resulting from more realistic exchange rates. The country's entire tax system is to be revised. In order to cover, in part, the deficit of 140,000 million pesos, it is proposed to obtain internal and external loans in the amount of $100 million. The President stated he was confident that these loans would be forthcoming to the new Government, which was free from political influences and demagogy. President Alessandri added that his Government considered that the large copper mining companies should cooperate in the economic recovery by renouncing the benefits which they would receive from the adjustment of the exchange rate and by lending their support to the Government in its efforts to obtain a substantial loan abroad.

The President emphasized that the Government was aware of the present alarming housing shortage and stressed that the authorities were granting it priority, but to tackle the problem adequately it was necessary, first of all, to restore order in the country's economy. He promised to give his personal attention to the revision of the pension and social benefit laws. In his closing remarks he reiterated his belief in the need for what he described as a national Government composed of experienced or technically specialized men of proved capabilities.

BRAZIL

Foreign aid needs
The Financial Times, London, February 10, 1959, page 5 - From Rio de Janeiro

Brazil is determined to keep up the pace of its industrial and development program, but its only hope of doing this in the next few months is continued confidence on the part of its foreign investors and more financial help from the United States. The latter is likely to be forthcoming for, in its own interests, the United States cannot allow Brazil's development to slow down drastically. Direct foreign investment in 1958 in the form of plant and machinery was just over $100.5 million, about the same as in 1957.

To keep up essential imports, Brazil had to draw $37.5 million from the International Monetary Fund. It also received $158 million from the Export-Import Bank and private American banks, and was obliged to negotiate postponement for two years of payments on credits of $200 million with a gold backing, due in 1958 and 1959. For Brazil, therefore, 1958 was a critical year, but despite the serious drop in export earnings -- particularly from coffee -- the country pressed on with its development and industrialization program. Although the exchange position was extremely tight, payments, including sterling commercial arrears, were kept up to date.

World overproduction of coffee, the drop in prices, and some poor crops -- particularly cotton -- hit Brazil badly. Government stocks of unsold coffee are now near 13 million bags -- worth about $650 million at average current prices. Last July the Government dropped its costly policy of buying up all coffee surpluses and restricted such purchases to 40 per cent. Powerful economic interests, however, have forced a reversal of this decision and an assurance has been given that in June the Government will again take up all unexported surpluses. With the 1958-59 crop estimated at over 23 million bags, and an export potential of only about 15 million bags, the problem confronting the Government is a serious one.

Towards the end of 1958 prices generally had risen 25 per cent, and further inflationary pressure in 1959 will result from a 30 per cent pay increase for Federal employees and the armed services. At the end of 1958 the Federal deficit was about 30,000 million cruzeiros ($214 million) -- almost treble the original estimate. Last month new regulations were also issued to encourage exports by means of higher export bonuses and there will be a further cutting back of imports. The visible trade deficit in 1958 was about $100 million. The Government is committed to an expansionist economic policy, for it feels more firmly than any of its predecessors that development and industrialization are the long-term solutions for Brazil and, despite mounting difficulties, progress is being made.

UNITED STATES

Catering for U.S. gold hoarders - By Lombard
The Financial Times, London, February 12, 1959, page 3

An intriguing feature of the international financial scene is the growing tendency both in the United States and elsewhere to assume that Americans themselves will become so worried before long about the possibility of a cut in the gold value of the dollar that they soon will be starting to take an active interest in the hoarding of gold. For if a decline in international confidence in the dollar were

to start manifesting itself in this way to an appreciable extent, the United States authorities might really find pressure on their reserves taking on an embarrassing character.

There is no doubt that some foreign holders of dollars have felt that recent developments in the American economic situation have brought the danger of a devaluation of the dollar in terms of gold so much nearer that it would be a good idea to convert part of their balances into gold. Exchanges of this kind were going on last year at such a rate that only about a quarter of the $3 billion or so deficit the United States showed in payments with other countries found expression in an increase in the amount of foreign short-term balances with American banks, the great bulk of it being reflected in the movement of gold to other countries.

Up to fairly recently, Americans themselves were apparently not inclined to see the threat to the dollar on this account as being so serious that it was worth thinking in terms of hedging against it by converting money into gold. However, it seems that the American public has been in process of becoming more hoarding-minded during the past few months. And there are apparently not a few people who think that it is going to get more so in the period ahead. One illustration of this is to be found in the fact that Canadian interests have taken a number of steps to facilitate the purchase, sale, and holding of gold in the Dominion.

Another pointer is to be found in the fact that Dr. Franz Pick, the American currency expert, has considered this an appropriate time to publish what is in effect a gold hoarding guide for the use of the American public. Under the title "Gold -- how and where to buy it and hold it," the book discusses the rival merits of the various methods that devaluation-conscious Americans can adopt for acquiring and storing gold. Perhaps Dr. Pick may in reality not be convinced that an increase in the American gold price is just around the corner, but the fact that he, a man well acquainted with the current American financial scene, is persuaded that there will be a sufficiently large sale for a dollar devaluation guide to warrant the trouble and expense of producing it must be regarded as significant.

Of course, the American internal and external situation may shape in such a way in the period ahead that the recent increase in gold hoarding activity within the country will prove short-lived. Again, it is possible that, even if the threat to the dollar does seem to grow more acute, Americans as a whole will display no great interest in the possibilities of seeking protection for their money in the acquisition of a gold stock.

But if it should prove otherwise -- if gold hoarding should really become fashionable in the United States -- the authorities there might soon have real cause for concern about the level of their reserves. For it can be safely assumed that dollars exported by Americans for the purpose of building up a gold stock abroad would for the most part be duly acquired by the central banks of the countries concerned and later presented to the American Treasury in exchange for a comparable part of that country's official gold stock. And, of course, the American money stock is of such size that, even if only a small proportion of it were sent out of the country for the purpose of building up gold hoards, the present United States gold stock of $20 billion would take a nasty knock.

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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INTERNATIONAL COOPERATION

Common market in capital?
The Economist, London, February 28, 1959, pages 799-801

Money is moving more freely over Europe's frontiers. In relation to the amounts borrowed and lent domestically, the international flow is still small. Compared with the freedom of merchandise trade and of payment for it, Europe's markets in money and capital remain protected and to a substantial degree isolated by direct regulation and by differing administrative and fiscal practice. But barriers have been reduced in recent weeks; and Continental bankers and industrial finance officers tell the visitor that over the years the links will grow much closer.

A concurrence of influences is responsible for this widening of financial horizons. A dominant one is the Common Market, which gives an obvious stimulus to an increased flow between countries that are integrating their economies. At the same time, hesitations about moving money abroad have been met by the grant of external convertibility in Europe, and by devaluation and financial reform in France. The dual freeing, moreover, coincides with favorable developments in the capital markets of Europe's two big creditor countries, Germany and Switzerland. The Germans are just beginning to lend their huge current surplus in long-term loans abroad, and the Swiss have recently resumed foreign lending. Since Swiss bankers now have doubts about formerly esteemed outlets overseas, including southern Africa and the United States, more of their money is available for Europe.

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The broadening of capital markets is to some extent a world phenomenon, reflecting both some easing in the intensity of demand for capital in the industrialized countries and the better climate for foreign investments in a number of others. The World Bank has played a leading role, both in the scale of its own lending and in blazing a trail for private money; and the New York market has become much more receptive of foreign issues. But a large part of any foreign issue in New York, often an overwhelming part, is subscribed from Europe. Swiss bankers in particular may be heard to grumble that, if the dollar grows any more suspect, they will put up their own money in their own country.

"We're all in the same boat" is not a cliché in Switzerland, and it is telling to hear it applied to Europe's economy at the present stage. Continental bankers generally share the same feeling, and the same concern, that none of their number should seriously rock the boat. The great question mark hangs over France. The drastic new year surgery of its finances has transformed the European economic outlook. To many Frenchmen the price seems a high one; but few question the boldness of the French Government's bid. It is a bid for investors, addressed to the gold-hoarding French peasant and middle classes, as well as to the foreign investor. The deflationary fiscal policy and highly competitive exchange rate is being accompanied by structural and fiscal reforms to broaden investment on the Bourse.

First results have been promising. The Bank of France is taking in foreign exchange every day, and the recovery is now much bigger than the pre-devaluation loss in December. But the authorities have hardly yet begun to tap the vast reserves of privately-owned gold and foreign assets, estimated at the staggering figure of $10 billion in all, but more conservatively at $3-4 billion of gold and perhaps $2-1/2 billion of foreign deposits and foreign securities. This will not return in a hurry. Only when confidence is rock fast will Frenchmen disgorge their gold. But the authorities may not be over-optimistic if they hope that the various inflows on capital account will match the forthcoming repayments on recent foreign credits. With crossed fingers, Europe's bankers and businessmen are hoping that France may now find financial stability. Accordingly, France occupies a prominent place in each of the four main aspects in the widening of Europe's capital and money markets.

First among these aspects is the increased scope for foreign investment on the Bourses. The French authorities are keen to get their stocks quoted on other Continental exchanges, and they themselves are providing reciprocal facilities. In Frankfurt, too, rapid strides have been made in this direction, and similar moves are in preparation in other countries of the Six. France has removed restrictions on the disposition of capital funds owned by non-residents. Will Swiss and German investors -- who alone in Europe enjoy full freedom to acquire assets abroad -- respond? Years of inflation have carried French shares to high prices, for investors hedging against further inflation have been prepared to accept yields as low as 1 or 2 per cent. It can be argued that in terms of break-up value French shares are basically cheap, and that as money tightens in France firms will be forced to raise more from the capital market and therefore to increase their dividends. Some Continental investors feel that French conservatism in dividends is more deeply entrenched; they prefer German shares with their high yields and the D-mark basis. Others, including Swiss investors, have recently shown some nervousness about German shares, whose steep rise was checked by the cloud over Berlin. But if Europe's stock markets were fully free and integrated, the first result might easily be a net flow from the weak to the strong. When French investors recently unloaded some of their large holdings of Congo securities, they took the proceeds to Switzerland.

A second, more predictable, channel of foreign investment is in new issues. The Swiss market is now in full use by foreign borrowers. In the six months since the ban was lifted last summer, the total of new issues amounted to over 600 million francs ($139 million). Nor are there any signs yet that the market has overreached itself. The Swiss National Bank is anxious to encourage capital exports to take excess money out of Switzerland. But it has been forced by political pressure to agree to a ban, while the negotiations for a Free Trade Area remain in their present impasse, on any issue to a concern in one of the countries of the Common Market. Since Swiss investors are now less enamored of the prospect in Africa, they will presumably look favorably on approaches from European countries outside the Six.

Germany, too, is opening its market to foreign borrowers. But despite the steep decline in interest rates there since 1957, the cost is still high. Austria has twice paid around 6 per cent for its money, and the German authorities will count it a great achievement if they can soon place a World Bank issue at 5 per cent, a full 1 per cent above the Bank's recent Zürich issue. Among other European nations, Holland has recently been concentrating on repatriating its own shares from America and other foreign portfolios. Italy, a net importer of capital, has recently been running a big current surplus and is prepared to grant some long-term foreign credits for specific purposes.

The third main channel of cross investment in Europe is through investment trusts. All countries are anxious to broaden the investment habit which is widely spread only in Switzerland. Investment trusts on the Continent, which often take the form of open-ended mutual funds or unit trusts, are in many cases run by big banks. A number of new trusts have been set up in Germany in the past year or two; they have received an impetus in Holland, and the French authorities are now believed to be preparing the way. In Switzerland new trusts have been formed to hold shares of other European countries, including British securities, though bankers stress the handicap imposed by the high taxation on British dividends. Most recently, a group of European banks, mainly banques d'affaires, has launched Eurunion simultaneously in the markets of the Six. This is an early fruit of the cooperation that has recently been arranged among various banking groups in the Six countries. There is a feeling that Britain is being left out in the cold.

Finally -- and here Britain figures more prominently -- short-term money is flowing much more freely among the major banking centers. Convertibility gave an important fillip; and the European Monetary Agreement provides a little publicized guarantee against devaluation of balances held by central banks. Today Swiss and German bankers are taking advantage of the higher short-term rates ruling in London and in Paris. French francs are virtually always covered forward against the exchange risk; some bankers (but by no means all) now leave sterling funds uncovered. The headache of Swiss and German bankers is too few outlets for too much money; yet it is difficult to attract short-term financing business to these centers, largely because world traders are accustomed to invoicing their goods in sterling, and would be shouldering an exchange risk if they took finance outside London. In practice, Swiss and German money plays its role indirectly, working through the London money market. The upshot of these movements, and of the capital flows, is that in January neither the Bundesbank nor the Swiss National Bank gained reserves. Thus private movements of funds are making their own contribution towards a better distribution of world liquidity. They could do more; but here again everything rests on confidence. How does the world look from the banking parlors of Zürich? That requires an article to itself.

NETHERLANDS

New freedom for Dutch capital market
The Times, London, February 27, 1959, page 13 - From Amsterdam

The Netherlands Bank has informed the Stock Exchange that it is once again prepared to consider applications for the introduction of foreign securities. These applications have not been made since September 2, 1957, when the Bank asked the Stock Exchange authorities to suspend new foreign introductions as part of the measures taken that fall to protect the guilder.

This announcement is being widely recognized as official encouragement for Dutch investors to take an interest in foreign industrial shares. There are basically two reasons for this official view. One is that it will mark a return to what is regarded as a more normal prewar position, when Dutch investors were the largest Continental holders of foreign securities, notably American. Since the war Dutch investors have tended to place their funds in domestic industrial securities, and to some extent in fixed-interest stocks. The second reason is that the authorities are anxious to offset, in part at least, the heavy foreign (particularly American) buying of Dutch securities, which has become such an important factor on the Amsterdam Stock Exchange.

In recent months German investors and some of the recently established European unit trusts have also turned their attention toward Dutch Ordinary shares. A variety of reasons help to explain the popularity of Dutch equities, especially the existence of several large international companies in Holland coupled with generally attractive yields. So far as United States investors are concerned, one further inducement to buy shares here is that American companies are investing on a large scale. Direct investment by United States firms in Netherlands, which was only $84 million in 1950 is now well over $200 million. Over half of this total has been invested by American oil companies.

But for European investors, probably the most striking attraction of the Netherlands stems from its successful handling of the 1957 foreign exchange crisis. The Dutch policy followed broadly similar lines to the measures introduced in the United Kingdom during the fall of the same year. By contrast, the Netherlands faced virtually unchanged terms of trade during 1958 (as compared with 1957) but turned a 1957 current account deficit of $144 million into a surplus of $434 million for 1958. And last year the Netherlands suffered a significant decline in invisible income from shipping. This improvement on current account, together with the channelling of investment into domestic securities, has led to something of a surplus of investible funds in this country. This surplus is suggested as a further reason for the authorities' decision to encourage Dutch investment in foreign securities. Certainly, the surplus of investible funds in the Netherlands has helped to push interest rates down. At present the call money rate on three-month Treasury Bills has fallen by about 3/4 per cent since the beginning of the year to its present level of 1-1/2 per cent; and last week's allotment of 12-month Treasury Bills amounted to only 2 per cent of the applications.

All the signs are that this strong position will continue. Imports remain low, while exports are holding up well. Imports in January were $5.6 million lower than a year previously, while exports were fully $100 million above the level of January 1958.

Holland eases credit trading
The Financial Times, London, February 18, 1959, page 5 - From The Hague

Hire-purchase regulations in Holland have been relaxed. The maximum payment period of up to 24 months has been abolished for all articles. Future deposits on motor cycles and scooters will be 15 per cent instead of 25 per cent. Other deposits remain at the level to which they were lowered last June: 25 per cent for cars, 15 per cent for motorized cycles, radio and television sets, and washing machines. The motor cycle and scooter trade has welcomed the relaxation, but does not expect an immediate substantial increase in orders.

BELGIUM

Belgian economy under review
The Times, London, February 25, 1959, page 8 - From Brussels

The strike in the Belgian coalfields has led to a re-examination of regional planning, and the Government promises to spend large sums on public works in the Borinage /the southern coalfields/, where some of the mines are to be closed and others merged, and to offer financial inducements to industry to move there, in order to provide new employment. The paradox of the whole affair has been that it began as an absurd local protest against the inevitable and ended by causing a valuable re-appraisal of the whole economic situation of Belgium.

Belgium's coal surplus of seven million tons is higher in proportion to output than that of other members of the Coal and Steel Community. At the moment about 25 per cent remains unsold compared with 10 per cent in West Germany. The coal in the area of the north can compete with that of the Ruhr, but in the southern basin the seams are weak, crooked, and deep down, and production costs remain impossibly high in spite of modernization, so that German and American coal is cheaper even in the area itself. One of the results is that imports have soared. In January 600,000 tons came into Belgium compared with 450,000 tons in the same month last year. Meanwhile, of course, oil consumption has increased and home coal consumption declined.

Since the war about $101 million in subsidies have been poured into the Belgian coal industry to keep it going, while wages have increased and prices have been kept artificially low. The Belgian miner is the highest paid in the Community. Under the treaties of the Community all subsidies, including those now being given by Germany and the Netherlands, must be progressively reduced. A committee of experts decided that the production of the Borinage fields must therefore be reduced from 12,000 tons a day to at the most 8,000 tons. This involves progressive closures, and if there is any justified criticism of the plan it is that it does not go far enough.

The mistake was to neglect wider economic planning, but this is on the whole alien to the Belgian system -- or lack of system. Average daily unemployment in the whole country is now 365,000, which includes 194,000 partially unemployed. The textile industry of Flanders is probably the worst hit (far more so than the Borinage), and a man in Ypres recently gave a small party to celebrate his 25th year of unemployment.

The problem facing the Government now is how to make industries expand into regions where they ought to go rather than where they want to go, especially when

the general decline caused by the recession is only just beginning to level out. American firms who raised high hopes when they began setting up subsidiaries within the Common Market have been going more and more to Holland, where labor is considerably cheaper, though statistically less productive and less skillful. This is causing some anxiety and there is strong pressure for offering the Americans more financial inducements. But even if this is not too late to turn the tide, they will keep well clear of the Borinage, especially since the strikes.

In spite of budget deficits and foreign trade deficits, very high wages, and high social welfare costs, Belgium does not seem too pessimistic about the Common Market. Trade is already relatively free. Industries are being encouraged to concentrate and are being helped to do so by tax and other relief. The retail price index has risen by only 8.73 per cent since 1953, while wages have risen by 29 per cent, which is taken as a healthy sign of increased productivity.

The Congo, on the other hand, is now becoming a drain on the economy. This year for the first time it has had to be subsidized, and the size of the subsidy is 1,000 million francs ($20 million). The troubles there have seriously reduced the rate of investment, and with 25,000 unemployed at the present there is every likelihood of more troubles, particularly if world copper prices do not revive. The new Government plan for speeding up development towards independence may act as a sedative at first; but the Congo is clearly facing an awkward, if exciting, period of development, and also an expensive one.

GREECE

New export policy in Greece
Internationale Wirtschaft, Vienna, February 13, 1959, Supplement, page 1 (in German)

The Greek Government has issued a series of decrees which constitute a basis for a new export policy. The main objective of the new policy lies in seeking out the customers instead of waiting for them. With this in view, the Government will issue several legal and administrative directives which aim to adapt production to the demand abroad and at the same time organize and clarify the control of exports. The first fundamental measures in this direction provide for the reorganization of every official agency concerned and the creation of viable export industries. Some of the decrees set forth the following principles:

1) The Ministry of Trade will be reorganized in such a manner as to be able to cope with modern requirements. 2) The commercial branches abroad of the Greek foreign service will be reorganized, expanded, and reinforced with additional personnel. New branches will be established in countries in which they do not exist. 3) Special joint missions, consisting of Government officials and representatives from productive sectors, will go abroad to study at first hand the possibilities for increasing exports of Greek products. 4) The establishment of powerful export units which will systematize and expand exports of vegetable products and fruits. 5) Adaptation of products, with regard to quality and quantity, to the requirements and demands of foreign markets. 6) Establishment of production zones for selected fruits and vegetables.

Finally, the Government has approved a draft law submitted by the Ministry of Trade which amends existing legal provisions concerning control of exports and provides for sanctions for those exporters who do not observe the contractual obligations.

SOUTH AFRICA

Monetary unit of 10s.
The Times, London, March 6, 1959, page 9 - From Cape Town

The South African Government has announced that in decimalizing the Union's coinage it would adopt a unit of 10 shillings divided into 100 cents. This was the unit strongly recommended by the Decimal Coinage Commission that reported last year. The pound-mill and the pound-cent systems were rejected as less convenient. The name now officially adopted for the new unit is "Rand," which was suggested many years ago by the late N.C. Havenga when he was Minister of Finance. It has the advantages of being the same in Afrikaans and English, and of enshrining the importance of the gold mining industry.

SILVER

Breaking of the silver "barrier" - By Lombard
The Financial Times, London, February 26, 1959, page 3

One of the oddest of world markets, that handling the international traffic in silver, has been experiencing an exceptional burst of activity in recent weeks. And some dealers regard this as a first manifestation of a change in the basic supply-demand relationship that may eventually force prices through the ceiling that has been imposed on them by the operation of the silver rehabilitation program launched by the Roosevelt Administration a quarter of a century ago.

Silver prices have been hardening steadily since the beginning of the year in both New York and London; together they handle the great bulk of the world turnover. In the American center the movement has gone so far that the market price is now only a shade below the level of 91 cents per ounce at which the United States Treasury can release metal from official stocks for meeting domestic requirements, a right that it has regularly exercised in the past with the result that 91 cents has been the effective limit for any advance. In London the cash price has climbed to 78d; at the close of 1958 it was just under 76d. As this has brought it close to the point at which metal can be profitably shipped from New York, the United Kingdom is, as it were, also knocking against the American official ceiling.

From time to time in recent years market prices for silver have made contact with the U.S. limit. But the closing of the gap has aroused more than usual interest on this occasion because it is thought that it may be the first product of the play of factors that could eventually change the whole shape of the world market. This market, it should be noted, has been a distinctly artificial affair in many ways ever since the U.S. authorities decided in the early 1930's that they ought to intervene in it to put silver back on the map as a monetary metal. It has been particularly artificial since the end of the war. For during that time the demand for consumption in the arts and industry, for coinage, and for other monetary purposes has been more or less regularly outstripping production. Yet supply has as frequently shown a tendency to exceed demand simply because many countries have been throwing on to the market metal released by demonetization of their silver coinage.

However, the flow of demonetized metal on to the market is at last beginning to dwindle as it was bound to do as recovery programs neared completion. That in

itself could clearly mean a major change in the supply-demand relationship. As it happens, its impact is being underlined by two other important factors. One is the resumption of the earlier expansion in the offtake of metal by industry and the arts, and the other is the marked tendency for the silver coin to come back into fashion. One of the main causes of the recent strengthening of market prices, for instance, has been the French decision to use some 30 million ounces of silver in minting new franc coinage over the next two years.

In short, demand is tending to move still further ahead of production just at the time when the stream of demonetized metal is starting to dry up. That could have explosive effects on the price structure in any other market. But it is hardly likely to do so in silver, for a while at least. For it is quite certain that this situation can be taken care of by the American Treasury's "ceiling machinery." Thus besides permitting them to sell silver to domestic users whenever the price reaches 91 cents, existing legislation obliges the U.S. authorities to be always ready to purchase home-produced metal at 90-1/2 cents. Any tendency for the market price to move beyond the 91 cents level will initially be frustrated, first, by official sales to domestic consumers, and secondly, by the diversion to the market of the 40 million ounces that U.S. mines are putting into official stocks every year.

So the increase in demand for silver in relation to the supply is not likely to set the world price moving very far at first. But the stocks of silver the U.S. Treasury is free to sell on the open market are not unlimited; another requirement of existing legislation is that a sizeable proportion of the official silver stock is retained as part of the currency reserve. And if consumption continued to grow at the pace of recent years, once that stock had been exhausted, the diversion of U.S. production onto the market might not serve to keep supply in equilibrium with demand on a 91 cents per ounce basis for long.

So it may be that the end of American domination of the world silver market is at last coming within sight. But I am making no guesses as to the year in which this particular barrier will be broken.

SHORT NOTES ON CURRENT ARTICLES

The new Congo problem

The Statist, London, February 7, 1959, pages 219-220. This article deals briefly with the political and at more length with the economic situation in the Belgian Congo. Until recently the economic policy pursued by the Belgian Government brought increasing prosperity to the Congo and considerable benefits to the native population, but now there are signs of a deceleration in the economic progress. Bank deposits have decreased from frs. 20,921 million ($418 million) at the end of 1956 to frs. 13,577 million at the end of August 1958, in particular government balances with the Central Bank. At the same time net investible surplus dropped from a peak of frs. 13,200 million in 1951 to frs. 5,590 million in 1957. One reason for the present difficulties is the increase in the Budget which drains away the reserves of profit-earning companies. Another is the fact that native workers cost a great deal to employ. There is a great need for foreign investment capital and if the Congo can inspire sufficient confidence there is no reason why it should not be a good borrower in world markets. But henceforth it will be much less easy to develop the Congo and it will have to rely much more on foreign capital than heretofore.

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SWITZERLAND

Bankers of Zürich
The Economist, London, March 7, 1959, pages 893-895

Zürich has not always been Switzerland's leading financial center, and even today its pre-eminence in its own country cannot be compared to that of London in Britain. Switzerland has no fewer than 518 separate banking institutions /Swiss sources state there were 419 banking institutions in 1957; of these 87 are in the city of Zürich. Nor has Zürich a monopoly on international business. Basel, Geneva, and to a less extent, Lausanne, all have a cluster of private banks, not always small, often of ancient lineage, sometimes without a nameplate on the door -- but usually doing a wide international business, and having a shrewd idea of how to spot an agent provocateur from France. But it is Zürich, with most of the large banks and most of the business in gold and foreign exchange, that has become identified in popular minds as the operating center of the international bankers. Politicians and commentators of many shades have found it convenient to evoke its machinations as the arbiter of other countries' policies. The popular impression has become distorted in its picture of the manner and the motives of the men of Zürich, and of their functions and real powers. It is not mistaken in feeling that what they think and do is very important.

When exchange markets all over Europe were freed at the end of December by the move to external convertibility, wiseacres asked whether Swiss bankers would now be out of a job. The Zürich exchange market had grown very rapidly since the war, ousting Paris as chief center of the Continent and at times doing more sterling-dollar business than London. Zürich was conducting predominantly arbitrage business, which it attracted because direct dealings were forbidden in the domestic or traditional centers. When restrictions were lifted, it was to be expected that such business would return to its normal channels. Zürich bankers have lost substantially in this way, mainly to London, but also to Frankfurt, Paris, and other centers. Zürich has also lost much trade in gold, which the Russians formerly sold there to get sterling at a discount. The Swiss shed few tears over this, as they dislike dealing with Communist countries; but they are philosophical also about the weightier impact on their exchange business. Zürich has been glad to accept a smaller exchange business in the general good. Arbitrage was only a by-product, if a profitable one, of its main business.

Switzerland is the true world bank (without the capitals), and its accounts serve a number of different purposes. There is the truly hot money, the mobile funds ready to move from center to center as interest rates, or political hopes and fears, dictate; for these funds Switzerland is the world's waiting room, where the doors never close. At the opposite extreme are foreign funds accumulated and kept idle in savings accounts, attracted to Switzerland by the stability of its currency and of much else, and not infrequently by the sanctity of Swiss bank accounts from tax inspectors. Other foreign funds managed, or simply held, by Swiss bankers are actively invested all over the world.

There are no official figures of foreign funds in Switzerland; but some good estimates have recently been made by Dr. Franz Aschinger /financial editor of the Neue Zürcher Zeitung/. He puts total foreign deposits at 5-6 billion Swiss francs ($1.2-1.4 billion). That would be around one-sixth of Switzerland's total deposits. About one-half is held in accounts denominated in dollars and very large amounts of foreign securities and gold are held in trust for foreign owners at Swiss banks. Excluding these "dollar" accounts, total foreign-owned assets in Swiss francs, including Swiss securities and property, are put at 9-10 billion francs. These are twice covered by Swiss assets abroad. United States sources show Swiss bank deposits of some $800 million and dollar securities of around $2 billion; but at least half these funds are thought to be held on account of non-Swiss clients. Switzerland's own holdings of foreign deposits and financial securities are estimated at the equivalent of 12-13 billion francs; direct investment and property bring total Swiss assets abroad to 17-18 billion francs.

The Swiss bank, therefore (unlike the London bank), is not endangered by any withdrawal of foreign funds. But withdrawals would involve a diminution of business, especially for the private banks in Basel and Geneva that have been taking in French money. Frenchmen may account for half the foreign funds in Switzerland; and a lasting recovery in France would undoubtedly have important consequences for Swiss banking. Few Swiss bankers expect that any such recovery of French confidence can come quickly; but the big bankers all hope that it will come, irrespective of the effect on Swiss banking business.

What to do with the money of the world's frightened, or simply cautious, capitalists is quite a problem for a country of the size of Switzerland. Domestic outlets are limited, especially as the Swiss are great savers. Many firms actively discourage foreign buying of their shares. There is virtually no market for short-

term money in Switzerland. As a result, Swiss bankers place a substantial part of their funds abroad. Their great prudence itself encourages them to match external liabilities with external assets. But it forces the bankers of Zürich into taking the closest view of foreign events. What is that view now?

Hitherto, perhaps one-half of their foreign assets have been held by the Swiss banks in the United States. The New York money market has been the main outlet for liquid funds, and the Swiss banks have placed much of their own and their customers' money on Wall Street. South Africa, the Belgian Congo, and Belgium itself have also been popular since the war. Today Zürich is having second thoughts all round. The potential political danger in Africa is felt more strongly; the Congo looks as if it may be a burden rather than a boon to Belgium, and Belgium itself looks over-priced. But above all, the guns have turned on the U.S. dollar. The chief executive of one of the big Zürich banks has wagered the Chairman of the Federal Reserve Board a case of champagne that America will devalue the dollar in three years; he will be glad to lose his bet, but does not think he will.

On what basis do Swiss bankers reach their decisions? How good is their information? The banks maintain extensive intelligence departments, whose researches extend deep into stock market analysis. Unquestionably, however, hunch and feel play a big part, and these are inevitably colored to some extent by what Swiss bankers feel to be sound and right. Thus the main worry about America now is the size of the Budget and the power of unions; the biggest dislike about Britain is its high taxes and the possibility of a Labor Government -- from which Swiss bankers fear not so much financial weakness as an unsympathetic climate for business. (In this, the bankers of Zürich may not differ so much from the business men of Britain.) But it is wrong to suppose that Zürich always acts purely on instinct. The troubles in Central Africa have caused no commotion. Again, despite irritations about the attitude of the Six, Swiss bankers are turning increasingly to Europe.

Four thousand million dollars' worth of money abroad, some of it hot, must be a major element in world finance, and it may often seem to be a decisive one. Hot money has been much abused; yet money that is mobile between centers can play a very useful part in world payments, as it has done since 1957. It is also true that in modern times the flow dictated on primary economic grounds may be upset by particular national policies, from taxes to self-government. If governments wish to keep their policies independent of the opinion of foreign capitalists about them, they have an easy remedy: they should not take their money, or taking it, they should hold it in special reserve. It is unreasonable to blame the lenders for watching their own interests; it is still more unprofitable to shoot at the banker they have retained to act or keep watch for them. If Zürich did not exist, many people would certainly have done their best to invent it.

GERMANY

Price cut campaign urged

The Financial Times, London, March 9, 1959, page 1 - From Bonn

Professor Erhard, West German Economics Minister, has set out on a campaign to "brain-wash" German industry into stimulating demand by lowering prices. His hand has been strengthened by a great wave of public support for him personally during the past week. This wave broke upon the heads of those who had proposed his nomination for the office of Federal President, a position carrying much honor but almost

no direct political influence. Professor Erhard heeded the public outcry and decided to remain at the Ministry of Economics. He will thus continue to cope with the relative stagnation of business. This, in his own words, is his prescription: "...it is not worth keeping up prices while at the same time cutting production. This sort of policy would hamper the increase of sales and the reduction of costs obtained from growing production."

As an advocate of a free economy, Professor Erhard has always had to rely largely on "brain-washing" or "soul-massage," as it is called in Germany, and upon his well-known optimism, to make industry feel his influence. The latter quality caused him to say: "The confidence I have in the capabilities of the business world is my justification for not seeing the current economic situation as a cause of worry for the future development of our economy."

His ideas have not gone unchallenged from official spokesmen of industry. The German Industrial Institute, mouthpiece of the German Federation of Industries, has said that Professor Erhard's ideas are just as mistaken as those of the trade unions, which would like to stimulate consumption by raising wages. The Institute says in its newsletter that consumers are inclined to put off their purchases when they expect price cuts. In the end the reluctance to buy could lead to a complete collapse of prices.

NORWAY

Budget for 1959-60 calls for expansion

The Financial Times, London, March 5, 1959, page 5 - From Oslo

Higher expenditure on education, road building, and the health services is foreseen in the Budget for 1959-60 which was presented to Parliament by the Government. The Budget puts expenditure at Kr. 6,032 million ($845.2 million) and foresees an over-all deficit of Kr. 230 million, although there will be a surplus on current account of Kr. 705 million, with expenditure on current account reaching Kr. 5,034 million. The new Budget, for the year beginning July 1, provides for one small tax relief. The tax on undistributed profits is to be cut from 8 per cent to 4 per cent, retroactive to January 1, 1959. Telephone charges and some postal rates are to be increased.

Mr. Trygve Bratelli, the Minister of Finance, said in his Budget speech that the general economic outlook was brighter than a year ago, and he foresaw a new year of economic progress for Norway, provided that international economic trends were reasonably favorable. Commenting on the plans for special trade areas in Europe and Scandinavia, Mr. Bratelli expressed the hope that some definite decision would soon be taken on these matters. The present uncertainty could hinder investment and production, he declared.

Reviewing the domestic situation, Mr. Bratelli said that a serious development had been the fall in employment in manufacturing industry. It had dropped by about 10,000 during 1958, compared with an increase of 98,000 from 1946 to 1957. One of the main aims of the Government's economic policy would be to promote renewed expansion in this sector of the economy. The Government, he stated, would continue to borrow abroad in order to finance development projects which could not otherwise be undertaken. He also declared that Norway's foreign currency reserves were high enough and could be allowed to fall slightly in order to achieve satisfactory growth in output and employment.

AUSTRIA

Relaxation of foreign exchange regulations
Neue Zürcher Zeitung, Zürich, February 18, 1959, section 8 (in German)

The Austrian National Bank has ordered a relaxation and simplification of the existing foreign exchange regulations in order to conform to changed conditions. Thirty-five old regulations were declared void and were superseded by 12 new ones. From now on payments for imports from countries with which transactions are conducted in convertible currencies may be made without special approval of the National Bank; this applies also to transactions with Greece and Turkey. An import permit will be required only for merchandise which calls for an import permit under the terms of the foreign trade law.

The liberalization of so-called current invisible transactions (service transactions) which heretofore were made within the framework of the former European Payments Union has been widened. The system of tourist quotas has also been extended to all countries which carry out their transactions with Austria in freely convertible currencies. Finally, the National Bank will abandon its one-sided fixing of exchange rates. The Vienna Stock Exchange will immediately begin free trading in the most important foreign currencies, so that future quotations will be reflecting the trend in the market without any limitations.

ISRAEL

New cost of living index
The Israel Economist, Jerusalem, January 1959, page 2

The long anticipated new cost of living index is about to be introduced. This index differs from its predecessor in two important respects: it includes a much larger number of items; and it does not make use of artificial price levels created by controls and rationing exclusively. In other words, the ludicrous situation whereby the index reflects the price of a meat ration accounting for a small fraction of the country's total meat consumption while disregarding the price of "free" meat altogether has been terminated.

It goes without saying that the new index will give a considerably more representative and accurate picture of the consumer price level than the old index did. But it will serve the Israel economy in much more important ways besides: The Government will now find it much more difficult to manipulate the index for its own purposes. Inflationary trends will be more fully reflected, and their economic causes may become clearer to the makers of policy. The entire issue of tying wages to the index may therefore have to be reviewed.

Meanwhile, an indirect result of the new index is the decision to end rationing altogether. The three commodities chiefly affected are meat, fats, and sugar. In each case, the free price is likely to drop, albeit to a level considerably above that of the present "ration" price. The higher prices for sugar and fats may cause some hardships, since the ration now accounts for a sizeable proportion of total consumption. With regard to meat, the consequences seem likely to be wholly beneficial, not least in the sphere of preventing distortions in the future development of Israel agriculture. All in all, the new index is to be welcomed. It must be hoped that it will remain a true yardstick of economic trends rather than an instrument for the manipulation of the wage level.

Tourist premium rate
The Financial Times, London, March 16, 1959, page 2 - From Jerusalem

The Israel Treasury is now granting a 20 per cent premium to tourists, which will mean an exchange rate of ŁI 2.16 to the dollar and ŁI 6.04 to the pound sterling. Treasury officials, however, said that the new regulations were not affecting the official exchange rates, which remain at ŁI 1.8 to the dollar and ŁI 5.04 to the pound. They explained that each tourist would be granted the premium for sums up to $1,500 per month.

The new measure, which is intended to encourage Israel's tourist trade, is regarded mainly as being for administrative convenience, because tourists have already hitherto received 20 per cent benefits on part of the funds they brought into the country. This was in the form of reduced hotel prices, which the Government pegged to the 1956 level, reimbursing the differences to hotel owners through subsidies. Treasury officials denied rumors that the new measures may be heralding the devaluation of the Israel currency. In effect, a multiple exchange rate has been in force for some years, since the Treasury has been granting various premiums and bonuses to certain categories of foreign currency earners, especially exporters.

PAKISTAN

Pakistan seeks more foreign capital
The Financial Times, London, February 21, 1959, page 1 - From Karachi

Pakistan will welcome foreign investment in heavy industries, the Government stated. Industries specified include heavy engineering and chemicals, synthetic distillation of coal and gas, pharmaceuticals and anti-biotics, mining and refining of minerals and oils, and the manufacture of producer goods and spares. In these industries there would be no restrictions on remittance of profits and no rigidity about the participation of Pakistani capital with foreign investment. Other concessions to the foreign investor include capital repatriation facilities and relief from double taxation, both to industries and foreign technicians employed by them. The Government also emphasized that it had no intention of nationalizing foreign-owned industries. If any industry were nationalized in an emergency, just and fair compensation in foreign currency would be paid.

INDONESIA

Nationalization of Dutch plantations
Neue Zürcher Zeitung, Zürich, February 17, 1959, section 9 (in German)

The Indonesian Minister of Agriculture has announced that all sequestrated large Dutch plantations have been nationalized in accordance with an official decree. This procedure appears to be based on a nationalization law of December 3, 1958, which enables the authorities to nationalize all of the 248 confiscated Dutch concerns and which emphasizes that any eventual compensation is to be considered by a separate law. Among the 248 concerns are 92 mining and industrial firms, 77 plantations, 32 commercial enterprises, 31 banking institutions, 7 power companies, and 2 pharmaceutical companies. The Foreign Ministry in The Hague has protested that the nationalization of Dutch plantations is in contradiction to international law and that it is an intolerable and discriminatory act directed solely against the Netherlands.

Dutch economic circles suspect that this action by the Indonesian authorities was taken mainly to strengthen Indonesia's position abroad and to prevent Dutch claims against the products -- offered in foreign markets -- from these confiscated plantations. In this connection, it is pointed out that the Indonesian tea center in Europe has been shifted from Amsterdam to Antwerp and the tobacco center from Amsterdam to Bremen. It is reported that the West German tobacco traders have stated categorically -- evidently for juridical reasons -- that they wish to buy Indonesian tobacco only if it is derived from nationalized Dutch plantations, but not if it originates in confiscated plantations. But it is also reported that in future Dutch traders will continue to make their influence felt in the tea and tobacco markets, although in a less obtrusive manner and that the Indonesians -- well aware of this fact -- will keep both eyes shut.

CANADA

Bond buying cuts inflation threat
The Financial Post, Toronto, March 7, 1959, page 9

Delivery of the Government's new $200 million loan is confidently expected to increase still further the proportion of government debt held by the public -- i.e., by corporations or individuals in contrast to the banking system or the Government. The impression is that one more bit of financing has been achieved in the non-inflationary way, by genuine borrowing, and not by allowing the money supply to expand so that the Chartered Banks could supply the cash.

The atmosphere in financial circles is markedly more optimistic than it was a few months ago. The more confident feeling about Canada's ability to finance the Government's needs without inflating the currency stems from two roots: 1) The reduction in the money supply and the increase in public holdings of government securities which has been achieved since the fall, and 2) The dawning hope that the Government's need to borrow in the new financial year may be smaller than had seemed inevitable some months ago. The hope that new financing may be kept within smaller bounds involves some gamble on the budget decisions. But more important is the expectation of considerably better tax returns as a result of better corporation profits and rising personal incomes.

The new confidence that monetary policy is working powerfully to bring inflationary expansion under control is based on the record of the last four months and the belief that the new $200 million of government debt will end up largely in the hands of the public. So long as the Government's need for money can be met out of the savings, or "investable funds" of Canadians, neither the deficit nor the non-budgetary borrowing need be inflationary, it is said. The Government is putting the money to work in its way instead of private corporations and individuals putting it to work in their way.

It is only since the end of October 1958 that private lending has been sufficient to meet government borrowing. Until that time the Bank of Canada's chief concern was to take care of the Government's needs and to get the Conversion Loan completed successfully. But from the end of October onward the Bank of Canada has been working to shift the public debt into the hands of the public and to reduce the money supply. It was afraid that, as the economy picked up, an excessive supply of money (or credit: it's the same thing) might feed a new inflation. There are three factors in the crucial monetary equation: 1) The money supply, which determines the

amount of credit the banks can give; 2) The total public debt, which willy-nilly is still growing; and 3) The distribution of the debt, as between the banking system-plus-government accounts and the investments of the public.

At the end of February, 56.3 per cent of the Government of Canada debt was held by the public. This was an improvement of five percentage points, or 10 per cent over the low point of public holdings at the end of September 1958. It was only one percentage point lower than a year earlier. At the end of February 1958 the public held 57.3 per cent of a smaller debt. Outstanding debt increased nearly 7 per cent on the twelve months. These figures include Canada Savings Bonds. The authorities insist that a significant contribution to the whole picture is the fact that more CSB were sold in the 1958 campaign and -- even more important -- less have been cashed in since the end of the campaign.

Looking only at market issues (i.e. Treasury bills and bonds), the broad outline is the same: a steady deterioration up to the fall of last year in public holdings, with a consequent forced resort to the banks through inflating the money supply, then a sharp reversal since October. Here is what happened to the money supply (taking that as the total of all bank deposits, including government accounts, but less float, plus the currency circulating outside the banks): June 1957 to October 1958, +16 per cent, and October 1958 to February 1959, -2 per cent (month-end figures).

The third factor in this whole equation is the bond holdings of government-plus-banks. And it conforms. From June 1957 to October 1958, the government debt (including CSB) increased by nearly 8 per cent. But the holdings of the Bank of Canada, the Chartered Banks, and government accounts increased by 24 per cent. In June 1957 this government-bank combination held 42.2 per cent of the public debt. By October 1958 this had risen to 48.7 per cent. By the end of February 1959, it was back to 43.7 per cent. This week's addition of $200 million to the debt will, it is hoped, bring it lower still.

The other achievement, of which financial authorities never cease to boast is the Conversion Loan of last summer, which brought the average term to maturity of the whole Canadian public debt to the longest it has been since 1945. Between June and September last year the average maturity was increased from six years four months to ten years six months. Every month that passes, of course, brings a decline of one month in the average maturity if no new debt is issued. This week's delivery, following the December issues which had already reduced the average to ten years two months, again shortens the average maturity. But it remains far longer than it has been at any period since the end of the war.

SHORT NOTES ON CURRENT ARTICLES

The Indian economy in 1958

The Eastern Economist, New Delhi, Annual Number, January 2, 1959, Supplement, 12 pages. Seven brief articles in this Supplement touch on the main features of the Indian economy in 1958. They point out the progress made in agricultural production and express concern over the stagnation in industrial production. The unrealistic official policy is blamed for this loss. One article deals briefly with basic changes in the country's banking system and another on conditions in the stock markets. The Supplement also contains several pages with charts and statistical tables.

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FRANCE

Two months of sévérité - By the Paris Correspondent
The Economist, London, March 14, 1959, page 984

Two months is a brief period in which to assess the impact of a new economic policy. But since the financial new deal, launched by the French Government at Christmas, was based on a series of calculated risks, it is worth while estimating how they have worked out up to now.

The financial experts' first hope was that the rise in prices and wages would be kept within prescribed limits. Fear of recession is making their calculations come true. The cost of living index in January rose by less than 3 per cent and in February by 1 per cent. True, not all the increased costs resulting from devaluation or cuts in subsidies have as yet been passed on to the consumers. But there are clear signs that retail prices are not being increased by more than the actual rise in costs, if that. For once Frenchmen are not reacting to devaluation by defense mechanisms developed through years of inflation.

The wage front is also stable, except for civil servants, workers in nationalized industries, and those earning the minimum wage who have been granted the

promised 4 per cent rise. Fear of unemployment acts as a check. The official figure of unsatisfied demands for jobs is still only 164,000, but the drastic reduction of working hours in several sectors does not create a climate favorable to successful labor action. Mass dismissals may lead to sporadic outbursts, but the trade unions do not yet seem in a position to fight effectively to preserve the real wages of the workers. The Government's premise -- that the price level should not rise by more than 5-7 per cent, while the bulk of wages remains frozen -- may well be fulfilled.

The experts also hoped that the prospect of a "heavy," steady franc would attract foreign funds to Paris and also induce Frenchmen to call their money back from abroad or to bring their hoarded gold into the light of day. M. Pinay claimed last week that since Christmas $600 million has been recovered by the French Exchange Stabilization Fund. Over $300 million of this is accounted for by speculative funds which had moved out before devaluation; the bulk of the rest apparently came from Switzerland and Belgium (probably French-controlled money) as well as Germany. French shares on the Paris Bourse showed very marked progress in the first weeks of the year, but have climbed down a little since then. Foreign interest in French investments certainly helps the balance of payments. The trend, however, will have to be reinforced and last much longer to offer a guarantee of security (particularly since foreign funds can now move out at call) or to have an impact on French investment.

The dream of gold coming out in tons from the proverbial French stockings has not come true. Gold is still selling on the "parallel" market at a high premium. To increase the supply, it has been suggested that death duties between husband and wife or those imposed on direct descendants ought to be abolished. Gold is often hoarded to dodge the tax collector, but the Government still hesitates because abolition would be greeted as a "gift for the wealthy." Altogether, it is still too early to assess the drive to attract capital, which has been given a fairly auspicious start. The hope of a miracle which would change the financial situation overnight has, on the other hand, proved an illusion.

The balance of payments is ultimately dependent on trade. The foreign trade deficit of 29.4 billion francs in January is not, on its own, a worry. After a couple of months in rough balance, exports once again covered only four-fifths of the import bill. This setback, however, can be explained by seasonal fluctuations and the immediate effects of devaluation. In February the deficit was reduced to 10 billion francs. More alarming are recent studies of the structure of French trade, showing the relatively small proportion of finished industrial goods on the export side and, particularly, the very unfavorable balance in capital goods. The French steel industry has shown that there are branches in which France is very competitive. But is French engineering in a position to take advantage of the new price comparisons? A recovery led by the export industries would be the ideal solution for the Government.

Looking at the whole situation it would seem that the Government is most perturbed by the reason for its own success. The extent to which it has managed to keep wages and prices in check has been a sign that the recession was having its effect and now the recession, in turn, has become the Government's worry. It is being recalled that last time, too, France was hit by the crisis later than its European partners. The Government is trying to stimulate production through State investment. The nationalized industries have been urged to speed up their plans.

Bank Rate, recently reduced by 1/4 per cent, will soon be brought down to 4 per cent or even 3-3/4 per cent. Some credit restrictions have been relaxed. Yet all this will have little impact if private industry does not intend to invest. To make money too cheap, on the other hand, would go against the official deflationary policy of verité and sévérité launched last Christmas. Optimists in the Government believe that after six months of this balancing act the French economy will find itself on the safe side of the crisis. The Government could certainly do with such a quick success. Last year Frenchmen were in a mood expecting miracles. Now they have woken up to reality and the latest electoral tests show that many of them did not like the awakening.

Credit squeeze eased
The Financial Times, London, March 20, 1959, page 11 - From Paris

The Bank of France has announced a further small relaxation in the French credit squeeze. The security discount rate is being cut from 6-1/2 per cent to 6 per cent, and the rates for banks which exceed the permissible ceiling for re-discounting operations from 8 to 7 per cent. The Bank Rate remains unchanged at 4-1/2 per cent.

Commenting on these moves, the Minister of Finance, M. Pinay, rejected the idea of a "massive" cut in the Bank Rate which would merely be a form of "window-dressing." There was no shortage of money at the banks, he said, and the Government preferred to advance by a steady reduction in long-term interest rates, which was already taking place.

The Finance Minister was "full of hope" about the outlook for the economy. Foreign exchange holdings of the Stabilization Fund now amounted to $650 million, he said, and every single day since devaluation of the franc at the end of December had left a positive balance of foreign currency. He rejected categorically the idea of a "generalized recession" in France. The unemployment rate was lower than that in any neighboring country, he stated. The one "black spot," according to the Minister, was the heavy foreign debt repayment facing France. This will amount to $200 million this year, and to $580 million in 1960.

GREAT BRITAIN

More freedom for forward pound deals
The Times, London, March 21, 1959, page 11

Two further small steps have just been taken in an effort to give London foreign exchange and bullion markets more freedom. From now on "invisible" transactions, such as capital investment, interest and dividend payments, and other service charges can be covered in the forward exchange market with a limit of six months. Hitherto access to the forward market has been limited to exchange deals related to merchandise and freight. In the gold market the opportunity has been taken to remove the need for dealers to get Bank of England permission for forward transactions. These moves were accompanied by a further improvement in the pound, with security sterling reaching a new peak of $2.80-13/16 on American buying of British securities.

Both changes, though small in themselves, are clearly moves from strength. The decision to allow forward dealings in "invisible" transactions should certainly improve the flexibility of the London market and allow investors here with regular

foreign interest payments due to them offset some of the expected seasonal changes in the pound by transactions on the forward market. But it also means that forward dealings will be able to be used to a greater extent in any future sterling crisis. The so-called leads and lags in payment may, therefore, be accentuated, but the fact that the authorities have felt confident enough to widen dealings in this way is some indication of the current strength of the pound.

The adjustment to dealings in the gold market is part of a move to put on a regular footing transactions that the Bank of England has already been approving for the leading bullion dealers for some time. Apart from simplifying market regulations, the latest official notice drops the requirement that all dealings other than spot must have Bank of England approval. In practice, of course, approval for forward dealings has invariably been given on broad lines to the more active bullion firms. But from now on specific permission will no longer be required. This does not apparently mean that a forward gold quotation will be made in London, but that dealers will be able to do forward business without prior notice. Six months ago, when the movement out of dollars into gold was at its height, this new freedom might have led to large transactions in the forward gold market. But the general impression in the bullion market now is that little difference would be seen at present. At least London will now be able to offer facilities in forward transactions equal to those in Switzerland, Belgium, and Canada.

AUSTRIA

Investment loan of 1959
Neue Zürcher Zeitung, Zürich, February 27, 1959, section 11 (in German)

The Ministry of Finance has published a communiqué with regard to the issue of an investment loan for 1959. The loan will be for one billion Schilling ($38 million) at an issue price of 100 per cent and a rate of interest of 7 per cent. The loan will mature in 20 years, and the credit institutions have guaranteed the placing of the entire issue. The proceeds will be used to cover the amounts set aside in the extraordinary budget for investments in the post office and the railroads. A part will be utilized for an automobile road from Vienna to Salzburg, and another part has been earmarked for schools and new school buildings.

RUMANIA

Economic relations with the West
Neue Zürcher Zeitung, Zürich, February 28, 1959, section 8 (in German)

A report of an interview with Rumanian Prime Minister Kiwu Stojka, in which he speaks of economic cooperation between Rumania and the West, is circulating in the Yugoslavian Press. According to this report, Rumania is said to be ready to dispose of its high-grade oil on world markets. As a matter of fact, 15,000 tons of oil were shipped to the United States recently, for the first time since the war. Mr. Stojka went even further in his interview by declaring that he was prepared to replace the former "short-term technical credits by the West" by substantial loans if these did not contain "unacceptable and dishonorable terms." To this effect contacts were being made between Western agents and economists in Bucharest. His Government, Mr. Stojka declared, was planning to purchase from West Germany (such as Krupp, Allgemeine Elektrizitätsgesellschaft, or others) industrial equipment for the many new factories which are growing considerably this year, especially in the chemical industry.

Despite the fact that at present Rumania is delivering 75 per cent of its exports to East bloc countries (chiefly to Russia which absorbs about half of all Rumanian exports), Mr. Stojka indicated that he favors an expansion of the national economy toward the West. According to his statements, Rumania is prepared to purchase about $100 million worth of equipment, regardless of the well-known fact that the total volume of Rumanian purchases from the West amounts to barely more than $200 million annually.

SAUDI ARABIA

King Saud's domestic economies
The Economist, London, February 28, 1959, page 796

The effort at economic retrenchment launched by the Saudi Arabian Government early last year is beginning to show positive results. Royal expenditure has been reduced, and luxury imports discouraged. Substantial payments have been made by the Government to the Saudi Arabian Currency Board, and much of the internal debt has been liquidated. The publication of the Budget for the forthcoming year suggests that the effort to bring national income and expenditure into a more healthy balance will be continued.

Problems of economic recovery have absorbed nearly all the energies of the Saudi Government. Whereas King Saud spent much of 1957 in well publicized state visits, the past twelve months have seen his almost complete withdrawal from politics. In the circumstances it was a wise -- almost unavoidable -- decision. Involvement in Arab politics brought the Saudis little but grief and bred, with the active encouragement of the West, a false idea of the country's standing. Meanwhile, the value of the riyal was falling steadily. In 1953, when King Saud came to the throne, it was rated a hard currency, standing at 3.75 to the dollar. By 1957, despite a huge increase in oil revenues, it had slid to 6.50, and would certainly have fallen further, as the Government itself has admitted, if drastic steps had not been taken.

The first measures were announced in May 1958; they were designed not merely to put an end to the series of Budget deficits, but to create a surplus, estimated at 115 million riyals, to be repaid to the Saudi Arabian Currency Board. (The Board had been raided so often that by August 1957, its currency cover had sunk to 14 per cent.) In fact, the result exceeded the Government's expectations. During the six months ending December 1958, budgetary economies had enabled the Government to repay nearly 200 million riyals. Combined with the Board's own operations, the position had improved so far that the currency cover had risen to 51 per cent, and a substantial proportion of the Board's indebtedness to local banks had been wiped out. The most obvious pointer to the success of these operations has been the steady rise in the value of the riyal. By the end of 1958, it had climbed back to 5.25 to the dollar.

The main effort in the field of economy has been made in respect of the civil list (upkeep of the royal family), in defense, and in a more rigorous control of imports. In the past, the expenditure of the royal family has been shrouded in mystery. The appropriation for the civil list in last year's Budget was 94 million riyals, out of a total expenditure of 1,375 million. This figure was wildly unrealistic, as the Government has since admitted. In the official statement accompanying this year's estimate, it is claimed that the figure of 252 million -- to be

spent on the family, the palace secretariat, and the royal bodyguard -- is "very much less" than actual expenditure in the preceding year. No less remarkable is the fall in defense estimates, which include provision for the tribal levies known as Mujahidin. They have dropped about 50 per cent, from 564 million to 284 million. These economies have allowed the authorities to revise in an upward sense the appropriations for education and health, and to maintain virtually unchanged those for agriculture and communications, while keeping the total national Budget, now standing balanced at 1,400 million riyals, below the level of last year. All this in addition to the sums disbursed to the Currency Board and to the local banks.

In the field of general economic activity, the Government is doing its best to discourage luxury imports. It is actively sponsoring the import only of foodstuffs, medicines, clothing, and productive machinery, all of which are classed as essentials. The import of motor cars was wholly forbidden for the first six months of the new régime, and it is going to be discouraged by various means for at least another six. The unspoken object of such regulation of trade is to encourage the riyal to rise still further. Few informed observers expect it to reach its former parity with the dollar; but it seems that a rate of 4.5, or thereabouts, should be well within reach.

Despite the sad experience of the past, or perhaps, rather, because of the sharp lesson it taught, there is no reason to take a gloomy view of Saudi Arabia's financial future. Oil revenues on a massive and increasing scale are assured; the problem is simply to cut the coat according to the ample cloth that they provide. Whether mere economic recovery will satisfy the angry young Saudi is another question.

UNITED ARAB REPUBLIC

Economic difficulties
Neue Zürcher Zeitung, Zürich, February 21, 1959, section 8 (in German)

The economic crisis in Syria was brought into the limelight in December, when delegates from Syria were received by President Nasser and explained to him the economic difficulties which arose in Syria after Syria and Egypt became the United Arab Republic. A committee of three, sent to Syria by President Nasser, has since then been working on measures designed to prepare the economic union of the two countries and to help Syria meet its economic problems. The committee has worked out a 20-year program at an estimated cost of LE 3,500 million ($10,051 million). In addition, steps will be taken to finance an immediate program to assist Syrian agriculture and industry.

The Syrian economy has suffered greatly from several unfavorable factors: the year 1958 was a year of crop failures; cotton production fell by 20 per cent, wheat production by 60 per cent, and barley production by 75 per cent. Moreover, there were difficulties in disposing of the cotton crop and there was a stagnation in the domestic demand for industrial products. The plans for an economic union with Egypt, which has an economic system based on different principles, have led to a lack of confidence, to a flight of capital, and to a general deterioration in business life. It is in the nature of things that an economic union between the two countries would mean nothing less than an adaptation to the Egyptian-controlled system, which is in complete contradiction to the freedom of the Syrian system.

The introduction of a stringent import licensing system and the plan for the unification of the two currencies have caused profound alarm in Syria which, at

times, has been voiced as a sharp criticism of the economic and financial policies dictated in Cairo. It may be assumed that from now on the plan will be implemented in a more moderate manner without, however, losing sight of the goal. In a press conference, the chairman of the committee has clearly indicated that any activity originating in "militant" circles in Syria and directed against Egypt or the United Arab Republic would be dealt with immediately and drastically.

JAPAN

Year of growth forecast
The Times, London, March 6, 1959, page 17 - From Tokyo

Two years ago, under the impact of the "Jimmu" boom (named after the mythical founder of the Imperial Dynasty), Japan's investments and imports soared, and foreign currency reserves dropped. The country was just beginning to return to "normalcy" when the delayed effects of the world recession made themselves felt. But now the economic recession is over. Production has begun to rise again, and the huge stocks of raw materials and consumer goods have fallen to more manageable proportions. The balance of payments is now extremely sound and 1958 ended with a more than comfortable cushion of foreign exchange.

The Government, with guarded optimism, has given these brighter prospects its official blessing. The Government planners, in their analysis of trends in the next twelve months, predict a growth in the gross national income of 5.5 per cent over 1958 and a balance of payments surplus of $160 million. Industrial production will rise by 6.1 per cent, as against 0.7 per cent in 1958, and consumption will maintain its present high level.

Against these figures which, in the opinion of experts, are if anything a little too conservative, an increase in the ordinary budget of 98,000 million yen to 1,419,200 million ($3,942 million) seems commensurate with the anticipated growth of the economy. But some fears have been expressed that the measures taken to stimulate business activity may prove inflationary. The Government is carrying out tax cuts of some 70,000 million yen on both individual incomes and the earnings of small and medium enterprises; it is increasing social security benefits; and it has raised the investment budget by 120,000 million yen over last year to 519,800 million yen. Much depends, however, on the way in which the expenditure is spread over the fiscal year and on the extent to which credit and trade liberalization measures are introduced.

Looking back on the past year and a half of the recession, two main features emerge. The first is that exports remained surprisingly stable. While the over-all increase was only 0.6 per cent over 1957, and exports to South East Asian countries fell by over 10 per cent, those to the United States rose by 16.5 per cent, and to South America by over 33 per cent. Imports, on the other hand, were cut by nearly 30 per cent and those from the United States by almost half. The second feature is that there was no falling off in consumer spending. Wholesale prices fell by over 5 per cent, but retail prices remained firm. Individual consumption rose by some 5 per cent over 1957, and department store sales at the end of the year reached record heights. Unemployment which rose to over 800,000 in March, fell back to under 500,000 by the end of the year. But this figure is only valid as a rough guide, since the Government regards as employed anyone working more than one hour a week.

There were several reasons for the lack of impact of the recession on the demand for consumer goods. The first was that business acted as a buffer and prevented the slowing down of economic activity from seriously affecting unemployment, wages, and salaries. Another factor was that agriculture, with the fourth in a series of bumper crops, was not affected. The boom was an import and investment boom. Many industries took advantage of the demand to expand their facilities or scrap old plant and equipment and install new machinery. To finance capital investment and production, they borrowed increasingly from the banks until the Government imposed retrenchment and tight money. But investment did not decline very fast because long-term programs could not be halted over night in coal, electricity, iron and steel, shipbuilding, and in some of the new chemical industries.

Japan was fortunate that the recession was short-lived. There are, however, still some dark spots in the picture. One is the continued fall in exports to the underdeveloped countries of Asia, upon which Japan depends for 40 per cent of her trade. In addition, there is the added prospect of competition in these markets from European countries. The problem of underdeveloped countries -- how to raise their standard of living so that they can be both economically viable and politically stable -- is one of the most urgent confronting Japan; but she is too short of capital herself to finance the development projects which would provide the solution. Yet another problem is the threat of restrictions on Japanese exports to the United States and, since the formation of the Common Market, to European countries and their African possessions; and the increased competition which, it is somewhat unclearly felt in Tokyo, will result from the convertibility of sterling and other European currencies. There is a lot of head scratching about these monetary measures, their significance for Japan, and the need for her to follow suit at least part of the way.

BRAZIL

Federal Budget for 1959
Bank of London & South America, London, Fortnightly Review, Feb. 14, 1959, p. 143

The Government has succeeded in obtaining approval of Congress for some of the main items of its Monetary Stabilization Plan, including an increase in the excise, income, and stamp taxes, but the remainder of the Plan seems to have been abandoned. The Finance Minister is reported to have concluded a budget economy plan for the present fiscal year, under which allocations in the Federal Budget are to be reduced by about 30,000 million cruzeiros.

The Federal Budget originally approved by Congress anticipated a deficit of 8,555 million cruzeiros. However, expenditure will be raised by at least 30,000 million cruzeiros as a result of the 30 per cent pay raise conceded to civil servants and the armed forces, while revenue is expected to be increased by about 10,000 million, because of the revision of the income, excise, and stamp taxes, all approved after publication of the Budget. Thus, expenditure is estimated at 172,200 million cruzeiros ($1,181.9 million) and revenue at a total of 157,700 million cruzeiros, leaving a deficit of 14,500 million. If the Government succeeds in cutting expenditures by an expected amount of 30,000 million, a surplus of 15,500 million cruzeiros would result for 1959. Details of the new economy plan have not yet been made public.

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

"Near-stability" and after - Economic Survey
The Economist, London, April 4, 1959, pages 55-58

By the middle of last year, a renewed and sterner credit squeeze had brought, at length, the rewards of three years' disinflationary policies. Britain had a record balance of payments surplus; sterling had staged its most impressive recovery since the war; prices had steadied, and wage claims were less bold. The reverse of the medal for restraint was that industrial output and employment had turned downwards; industry, with orders slackening and more capacity idle, had begun to trim its stocks. The Government judged it safe to shift the policy towards reinflation. Since then it has brought industrial output up to a slightly higher level and, now, an upturn in employment. The Treasury thinks demand and production would go on rising, even without the further budgetary stimulus which they will assuredly get.

The Economic Survey, just published, might reasonably have dwelt upon and taken some credit for the eventual broad success of the official policies of restraint pursued from 1955-58. But any extensive analysis of how disinflation, aided by a little luck, finally worked is hardly politic in a statement from a Government approaching an election, with the number of people wholly unemployed still higher than at the end of any other winter since before the war. On the policy that is past, the tone is still fairly defensive; the main emphasis of the Survey is upon the strength that the British economy has now built up to "continue expansion."

Expansion, whether it is occurring or whether it is about to be generated, will be from a position not merely of strength but of affluence; real consumption in Britain rose last year more than in either of the two previous years, to its highest level ever. Rising prices mopped up rather less of the 4-1/2 per cent increase in people's disposable incomes last year, and people are reckoned to have saved slightly less, as well. Nor did the recession of 1958 check the growth of the country's productive capacity. Fixed investment, though some elements in it went on declining, was in sum as high as in 1957. The net addition to productive capacity (slightly lower than in 1957) was being enlarged and improved at a rate comparable to the peak of the 1955-57 investment boom.

Exports fell slightly last year, and cuts in defense expenditure once again reduced the current spending of the Government; but the main reduction in total demand in the economy came from a very big fall in the rate of stockbuilding. After a year in which it had increased its stocks by £ 360 million, Britain last year added only £ 80 million to them. Real demand fell by less than one per cent between 1957 and 1958, by £ 130 million at 1957 factor cost; there was a corresponding tiny decrease in the volume of imports and in the total domestic output of goods and services, mainly in the first half of 1958. In money terms, national expenditure rose 4 per cent. There was little rise in prices during 1958. The average level of export prices and wholesale prices in the economy hardly changed at all; retail prices rose barely 2 per cent, mainly through higher rents and food prices. Britain, in the words of the Survey, had achieved "near-stability."

This near-stability was the result of the earlier sharp fall in import prices (though this was completed by February 1958), of a smaller rise in the total wage and salary bill than the previous year, and of lower employment. Wage rates went up by just over 3-1/2 per cent during the year; dismissals and reductions in hours worked brought the increase in total wages and salaries down to 2-1/2 per cent. Thus income from employment still rose more than total output did; so there was still some rise in average labor costs across the economy, while the lower import prices worked their way through.

The general slip in manufacturing output, plus more economy in holding stocks, bore heavily on industry's basic suppliers. Steel output fell 10 per cent; the coal industry, beset by fuel oil as well as recession, was forced to cut output, close pits, and begin revising its investment plans; and the railways, which carry so much of both these industries' products, lapsed into yet more humiliating deficit. Nor was the stock recession at home offset by better demand abroad. Britain's remarkable payments surplus -- in the first half of the year on visible trade alone -- derived from cheaper imports rather than higher exports.

The big improvement in Britain's current balance of payments embraced both sterling and non-sterling countries, and the traditional deficit with non-sterling countries gave way to a small surplus. The overseas sterling countries, hit by the fall in commodity prices, increased their current deficits all round. But their deficit with the non-sterling world was more than covered by gold production and by the inflow of capital (this amounted to over £ 350 million, and shielded the London gold reserves). The overseas sterling countries had to draw down their sterling balances in London by £ 82 million, but this was to finance their deficit with Britain itself. These drawings were more than offset by increases in the sterling balances of non-sterling countries of £ 158 million. Britain's exports of long-term capital were easily covered by the current surplus in the year as a whole,

leaving a balance of £ 219 million. The net increase of £ 70 million in the sterling balances increased short-term liabilities, but it also increased further the amount available for the gold reserves. These rose by £ 284 million, wholly in the first half.

In 1959 Britain faces important new external commitments on capital account. The Government has promised to look favorably on direct loans to needy Commonwealth borrowers, and private investment to the sterling Commonwealth has recently increased considerably. Then there are the payments to the International Monetary Fund -- $200 million last month in part repayment of the Suez drawing, and further big payments later this year for the increases in the Fund quotas. These commitments are not alarming; in the markets, sterling goes from strength to strength. But, together with a probable weakening in the current account, they do mean that the central reserves "may fall" this year. The Survey makes no bones about the ebb that must be expected from the high achievement of 1958 in the external account. It recognizes that competition is likely to become stiffer, especially in Europe with the development of the Common Market. "Provided that exports can be maintained, there should still be a substantial surplus on current account in 1959." That is not saying too much.

Turning to prospects at home, the Survey has one specific piece of information to offer, plus a generalized golden glow. The increase in public investment programs that the Chancellor announced last year, and which he has more recently said was being put into practice more rapidly than had been expected, is here bid up further. The Survey reckons that public investment should rise from this financial year to next by about 11 per cent, or £ 160 million, to £ 1,600 million; this increase from one year to another is as much as had originally been postulated for 18 months. The Survey's one innovation in form, it should be said, is a detailed appendix on public investment. Given this increase in public investment and higher investment in distribution and services, a sector which the authorities have now discovered "is of such importance for the future of the economy," there is certainly no reason to expect total fixed investment to fall. And the Survey is optimistic without qualifications concerning consumer expenditure, reckoning on higher real incomes and continued ease in borrowing; it makes no reference whatever to the fact that an increase in consumption due to freer hire-purchase is always liable to be temporary.

It has obviously been difficult for these surveyors to pretend that they are not assuming a further stimulus to internal demand from the Budget. What should perhaps be made clear is that, allowing for any private thought they may have on the matter, they have in this Survey committed themselves to markedly greater optimism about the forces of re-expansion already at work in the economy than, for example, the London and Cambridge Economic Service or the National Institute of Economic and Social Research. Nobody questions that some further stimulus is in order; opinions differ about how much is needed (and how much can be afforded) to do the trick. /The article contains several tables giving "economic pointers" on the economy./

Budget surplus of £ 377 million for 1958-59
The Financial Times, London, April 1, 1959, pages 1 and 8

The Exchequer year 1958-59, which ended on March 31, produced an ordinary revenue surplus of £ 377.2 million ($1,060 million). The over-all deficit, allowing for net payments below-the-line, amounted to £ 181.8 million. This ordinary surplus of £ 377 million compares with an original estimate of £ 364 million and a surplus for 1957-58 of £ 423 million. The over-all deficit of £ 182 million compares with an original estimate of £ 236 million and a 1957-58 figure of £ 212 million. The fact

that the ordinary surplus has turned out to be within £ 13 million of the amount originally estimated is partly fortuitous, since both income and expenditure have turned out to be somewhat larger than was at first expected.

Supplementary estimates during 1958-59 amounted to £ 193 million, but this increase was largely offset by economies and underspending elsewhere, and actual expenditure was only £ 28 million greater than was proposed at the time of last year's Budget. This is a normal result, actual expenditure usually tending to fall somewhat below the total of original and supplementary estimates. While expenditure was a little larger than forecast, despite savings of £ 27 million on defense services and £ 32 million on the cost of managing the National Debt, income too was larger. The year's total inflow of £ 5,480 million stands against an estimate of £ 5,439 million, and an inflow of £ 5,343 million during 1957-58

The 1958-59 result may be regarded as an encouraging prelude to next week's Budget. It is reasonable to presume that the revenue will remain buoyant, though perhaps less so than in the past. Budget forecasting is one of the few sciences which might appear to have become less exact in the last twenty years. Since the war most Chancellors have found that their forecasts proved substantially inaccurate, usually because they failed to make sufficient allowance for the effects of inflation. By these standards the 1958-59 estimates have proved more than usually accurate, and that can be regarded as one of the minor but significant signs of the passing of inflation itself.

We are now once again in the position of being halfway toward knowing the financial estimates from which the Chancellor will be making his Budget. We know the expenditure above and below-the-line for 1958-59; we also know, of course, the estimated current expenditure for 1959-60, and we know the actual revenue for last year. On the other hand, there are certain vital estimates which will not be published until Budget day itself; they include the cost of the consolidated fund for next year, the below-the-line expenditure, and the estimate for the buoyancy of the revenue on unchanged taxation. We also do not know what the official estimate of the Government's probable borrowing power may be.

These are all essential parts of the Budget picture; without them one cannot measure the Chancellor's room for manoeuver at all accurately. However, it does now look as if earlier estimates of the size of the ordinary surplus on unchanged taxation may have been rather too low. A month ago it looked as though a Chancellor who wanted to use the whole of his ordinary surplus for tax concessions would be able to reduce taxes by about £ 200-250 million. That raised a serious conflict between the need to give adequate relief to encourage economic expansion and the desirability of avoiding an ordinary Budget deficit, if only because of its effect on foreign opinion. Now the prospect is rather more favorable. There are still too many unknown factors to be dogmatic, but it appears that the available surplus, if it is all regarded as available, will be of the order of £ 300 million. The question, of course, still remains, whether an injection of this much additional purchasing power is necessary. After all, there will be a large increase in below-the-line expenditure; we do not yet know how large it will be in Budget terms, but we know that it will be large.

These are considerations which need to be taken into account, but in fact this is an occasion on which the Chancellor should not expect to cover any significant part of his capital expenditure out of current revenue. There is a swell of savings;

that, apart from the surplus capacity available in the economy, should remove the fear that Budget concessions on this scale would prove inflationary. The Chancellor should also bear in mind the effect that overtaxation has had on economic and industrial efficiency and on personal incentives. This is a moment when economic expansion requires large concessions; equally it is the best opportunity there has been since the war to carry on with the task of reducing the burden of overtaxation with its necessarily deadening effect on initiative and enterprise.

Britain repays $200 million drawn from IMF
The Financial Times, London, March 20, 1959, page 1

Britain has repaid to the International Monetary Fund $200 million of the $561 million drawn in December 1956. This was announced in a written parliamentary reply by the Chancellor of the Exchequer. Last December the United Kingdom Government notified the IMF that in addition to paying $200 million before the end of the Fund's year on April 30 it would repay the outstanding balance monthly during 1960 and 1961, and more expeditiously, if possible. Paid monthly this means 24 payments of about $15 million. Arrangements were made with the IMF in December 1956 for an immediate drawing of $561.47 million, and a stand-by arrangement up to the equivalent of $738.53 million over the ensuing twelve months. The stand-by arrangements have since been renewed to December 21, 1959.

One effect of the $200 million repurchase by Britain of sterling will be to increase automatically by the same figure the amount of foreign exchange the United Kingdom can draw under the stand-by agreement between now and December 21 next. A service charge of 1/2 per cent was paid on the December 1956 drawing of $561.47 million. There are no other charges on the gold tranche element ($236.47 million) of the drawing, but on the remainder there is a schedule of charges rising from nothing for the first three months to 5 per cent when the drawing has been outstanding for four years. For the present six months the charge is 3 per cent.

FRANCE

France gives up $150 million credit
The Times, London, March 12, 1959, page 18 - From Paris

On March 11 the Bank of France announced that it would have no further need of the $150 million of credit facilities offered to it by four European banks at the time of the devaluation of the franc last December. It has informed the four banks in question -- the central banks of Britain, West Germany, Belgium, and the Netherlands -- of this decision and has thanked them for their cooperation. Thanks to the large-scale return of foreign reserves to France since devaluation, these facilities were never actually taken up. The $80 million lent by the Bank for International Settlements also remains intact.

Export curbs lifted
The Financial Times, London, March 25, 1959, page 1

The Government has removed export restrictions on a large number of products, especially in the engineering and electrical engineering fields. Export licenses are no longer required for these goods. Government sources said the new move would further liberalize export trade. Only a restricted list of goods remained under control for economic, financial, or strategic reasons. A list of such goods, including some in the atomic energy field, would be issued shortly.

FINLAND

World Bank loan to Finland
The Times, London, March 17, 1959, page 17

The World Bank has approved a loan equivalent to $37 million to provide capital to nine private companies in Finland's pulp and paper industry for expansion and modernization of their plants. The projects being financed will enable the companies to increase their output of chemical pulp and newsprint, and to maintain the competitive position of these leading Finnish exports in world markets. The new foreign exchange earnings from the new production should amount to the equivalent of about $45 million annually.

Eight private banks are participating in the loan without the World Bank's guarantee for a total amount of $2,302,000, representing the first two maturities and part of the third maturity which fall due between August 15, 1962, and August 15, 1963. The loan was made to the Mortgage Bank of Finland Oy, a subsidiary of the Bank of Finland, established in 1956 as a channel through which long-term foreign loans could be made to Finnish enterprises. The Mortgage Bank will relend the proceeds of the World Bank's loan to the companies carrying out the projects. The loan is for a term of 15 years and bears interest at 5-3/4 per cent, including the 1 per cent commission which is allocated to the Bank's special reserve. The Bank has now made seven loans totalling $102 million for the expansion of electric power, agriculture, and the wood-products industry in Finland.

SPAIN

Investment and future trade program
The Financial Times, London, March 17, 1959, page 4 - From Madrid

The Press has carried a decree giving a total global figure of 81,500 million pesetas ($1,940 million) for capital investments planned for the current year "which it is calculated should not exceed the availabilities of our savings." The breakdown of the main items is as follows: Housing, 17,921 million pesetas; basic industries, 16,566 million; agriculture, 15,773 million; processing industries, 12,000 million; and public works, 11,457 million pesetas.

Analyzing the trade pattern over recent years and the lines upon which the Spanish Government intends to attempt to channel it in future, the decree gives the program for development over the next five years of agriculture and industry, and a pattern of increased exports and reduced imports, as a main objective. The decree also hints at the possibility of "obtaining loans from foreign governments."

TURKEY

Inflation checked
Press Review, Deutsche Bundesbank, Frankfurt a/M., March 6, 1959, page 6 (in German)

There are signs that the Turkish authorities have finally succeeded in checking the inflation. In agreement with the United States and its West European creditors Turkey decided on a de facto devaluation last summer when it received a $359 million credit for payment of essential imports. The new rate of exchange then was set at ŁT 9 per U.S. dollar (the old rate was ŁT 2.80 per dollar). There was, however,

o de jure devaluation, but a system was introduced whereby a premium of ₺T 6.20 as added to the old exchange rate of ₺T 2.80. This somewhat cumbersome procedure as to prevent a too massive increase in the public and commercial debt. This mounted to a total of $1.6 billion; an actual devaluation would have raised this mount to ₺T 14.4 billion -- at a time when the Budget amounted to over six billion ounds, by far the largest since the proclamation of the Republic.

The official rate of exchange, nevertheless, is still about 40 per cent above he rate commanded by the Turkish currency in the free exchange markets of the world. n the last six months, however, it not only has remained at the same level, but has ven shown an improvement of about 20 per cent. On the one hand, this is due to the rastic restriction in bank credits introduced by the central bank, and on the other o a systematic decrease in the note circulation. Every week ₺T 15 million in notes re being withdrawn and burnt in the main office of the Bank in Ankara. American xperts are carefully watching so that there will be no disruption in this radical, ut highly effective, process. The note circulation, which last August had reached record level of almost ₺T 4 billion, has now dropped to ₺T 3.4 billion; but it as also caused an unprecedented scarcity of money. This is felt all the more as, ogether with the drop in the note circulation, prices have gone up considerably, nd the cost of living has risen by an average of 50 per cent.

Of course, no miracles are to be expected in Turkey, despite many hopeful signs. he country will require many years to recover from its serious economic crises.

urkish debt settlement
he Financial Times, London, March 12, 1959, page 5 - From Istanbul

Mr. Oğuz Gökmen, Director of the Trade Agreements Office, Ministry of Foreign ffairs, has confirmed that bilateral agreements for the settlement of Turkey's ayments arrears in respect of past imports from countries of the Organisation for uropean Economic Cooperation are to be signed in Paris by the end of the month. he agreements will be based on the OEEC Council decision of January 30, 1959. They ill thus cover all amounts -- other than for petroleum -- due in respect of imports nd services to August 5, 1958, and maturities to end-1963 in respect of capital quipment contracts, in so far as they refer to goods imported and services rendered o August 5, 1958.

As from this date, Turkey will pay simple interest of 3 per cent per annum on hese arrears. Payments of principal will be made on an ascending scale starting t $15 million in 1959, rising to $35 million in 1963. The balance then remaining ill be paid in equal instalments over the next seven years. The OEEC Council ecision also recommended that contractors should negotiate with Turkey for the ephasing over a longer period of payments due to end-1963 in respect of goods upplied and services rendered after August 5 last. Payments of arrears under the ew instalment plan will be made in chronological order but whether this will be pplied irrespective of country or whether each country will be granted a pro rata mount of each annual instalment has yet to be settled. Probably the latter pro-edure will be adopted.

Mr. Gökmen stated that the total amount to be settled under the new agreements ith the OEEC countries was $424 million and the amount to be "rephased" was $125

million. The United States Government will almost certainly recommend that American creditors should also agree to receive payment on the same lines as will their European counterparts. The figures given by Mr. Gökmen are considerably higher than the total of about $440 million mentioned by the Minister of Finance on January 31 as being due to OEEC countries and the United States.

PARAGUAY

Finance - 1959 Budget estimates
Bank of London & South America, London, Fortnightly Review, Feb. 14, 1959, p. 152

The 1959 Budget estimates, the first since 1956, were published recently; revenue and expenditure is estimated at 2,627.6 million guaranies ($43.8 million). The greater part of revenue is derived from various taxes in an amount of 1,420.6 million guaranies; import and export duties and export charges are expected to yield 905 million; the remainder is to come from postal revenue, pension funds, and sundry revenues. On the expenditure side, the Ministry of National Defense has been allocated 697.1 million guaranies. The next largest item is 332.2 million for the Ministry of Education and Welfare; public debt payments are estimated at 303.2 million guaranies; and other ministries have been allocated smaller amounts.

SHORT NOTES ON CURRENT ARTICLES

Poland - A Financial Times Survey

The Financial Times, London, March 9, 1959, Supplement, 32 pages. This Supplement offers 32 articles, mostly written by Polish Government officials, which trace the country's development in the postwar years. They describe the economic plans and the changes introduced in the economic patterns. Several of the articles are devoted to Poland's foreign trade and the prospects for trade with the East and the West. Poland's heavy industries -- coal and steel -- are described and the importance of the electrical and power industries is emphasized. There are articles which hail the expansion in other industrial fields (shipping and shipbuilding, construction, chemicals, and textiles) and which give production targets and results. Most of the articles also contain statistical tables, some with comparative figures for earlier years.

Japan's debt-ridden economy - By Shuzo Watano

The Oriental Economist, Tokyo, February 1959, pages 84-86. The writer, who is President and Editor of The Oriental Economist, deplores the tendency to finance business expansion with loan capital rather than with equity capital. He believes that certain steps should be taken to strengthen the country's economy. First of all, there should be a "normalization of credit" and the establishment of a proper balance in the interest rate structure. Another step, he suggests, would be a reduction in corporate income taxes. If the financing of business operation becomes more and more dependent on the issue of stock rather than on bank borrowings, the problem of overlending would be solved, the interest burden would be lessened, and the banks would have less to say in the running of company affairs. "Only when these things come to pass can financing be said to have become normal," he concludes.

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April 17, 1959

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GREAT BRITAIN

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The Budget for 1959-60
The Times, London, April 8, 1959, pages 4-6
The Financial Times, London, April 8, 1959, pages 1 and 6-8

In his Budget speech before Parliament, the Chancellor of the Exchequer, Mr. Heathcoat Amory, emphasized three major problems which have faced Britain in recent years: "The first has been to fit the British economy to stand in the modern world without artificial supports and constrictions. These were necessary under a wartime régime, but subsequently became increasingly irksome, distorting, and, most important, ineffective. The second has been to promote a great increase in the proportion of our national resources saved and devoted to investment, so that we should be able to hold our own in the world and achieve the economic growth which is our objective. The third has been to reconcile the maintenance of high and stable levels of employment with a sound balance of payments and reasonable price stability. All of these things ... are, I believe, essential conditions for full employment in the long run."

The Chancellor estimated total expenditure above the line for 1959-60 at £ 5,223 million ($14,624 million), which is £ 120 million more than last year's actual outturn. On the basis of existing rates of taxation, total revenue is estimated at £ 5,620 million, giving a surplus above the line of £ 397 million, or £ 20 million more than the actual surplus last year. Payments below the line will show an increase and are estimated (at existing rates of taxation) at a net total of £ 752 million, or £ 193 million higher than last year. This would leave a net expenditure of £ 355 million to be met by borrowing, as compared with £ 182 million last year.

Mr. Amory's Budget foresees tax concessions, which will cost the economy £ 295 million this year. There will be reductions in income tax, purchase tax, and changes in beer and liquor license duties. Industry will be encouraged to bring forward capital projects by a partial replacement of initial allowances by investment allowances which will cost the Treasury nothing this year, but £ 9.5 million in 1960-61.

The Budget for 1959-60 is one which will have an increasing effect on the economy as time goes on; it is a Budget of large concessions, designed to restore economic expansion. The concessions do indeed go somewhat beyond what had been expected. In the first year they will cost £ 295 million above the line and a further £ 71 million on postwar credits below the line; in the second year the total cost will be £ 360 million. In addition, there is the decision to restore investment allowances. The significance of this restoration does not lie in its cost, for it costs nothing in the first year and only £ 9.5 million in the second, but in its likely effect on investment expenditure and in the strong incentive to investment which it gives.

So large an injection of new purchasing power into the economy is bound to act as a strong stimulant. In addition, the Chancellor is giving himself the power to repay further amounts of postwar credits should the situation require it. A Budget to combat recession could scarcely have gone further.

It is, of course, true that not all the £ 366 million of tax reliefs represent money that will actually be spent. A part of the income tax concession is likely to be saved and so may some of the other reliefs. The addition of purchasing power arising from the Budget will probably be little in excess of £ 300 million, though to this there must be added the £ 134 million increase in advances to the nationalized industries, and some of the other additions to public capital expenditure. It would be remarkable if such an increase in spending power did not take care of much of the present surplus of manpower and industrial capacity, even though the effect of last year's stimulus to consumption through hire-purchase may be running down by this summer.

The specific measures of this Budget seem to be desirable in themselves and reasonably balanced with each other. The right course for the Chancellor was clearly to concentrate a large part of his reliefs on major reductions in purchase tax and income tax. These simple broad taxes between them concern almost the whole population and the reductions will help to encourage both expansion and efficiency. The decision on the beer tax was unexpected, but not unwise. Beer has many merits, not least of which is its low import content. A Chancellor who encourages consumption in that form does not have to concern himself with its effect on the balance of payments.

The reorganization of postwar credits is also a thing desirable in itself. Some people would have put some other tax reform, such as the abolition of Schedule A on owner occupied houses, in a higher category. Nevertheless, these credits are obligations of Government and ordinary people had come to think of them as something of a public scandal. The Chancellor is repaying three years in one, he is also repaying the postwar credits of people who have died, and he is repaying in cases of hardship. This is, of course, a non-recurrent additional charge, but on top of that the credits not repaid will now bear interest. These changes are a most satisfactory reform of what had become a matter of widespread complaint.

The major Budget measures are therefore all desirable in themselves. The re-introduction of investment allowances will be more controversial, but they have really been open to criticism in the past for being too effective rather than for failing to achieve their object. The Chancellor warns industry in his speech that these allowances are thought appropriate to the present situation but may not be retained. That is probably an unsound doctrine. There has been too much changing in these and in the initial allowances during the 1950's.

This Budget rests upon a number of assumptions. There is the need to encourage expansion, and the need to revive productive investment; there is the British contribution to restoring an expansion of world trade; there is the belief that the rising level of savings will permit the Government to meet even so large an over-all deficit out of borrowing. The Chancellor must accept some risks in his policy. He himself forecasts that the gold reserves will fall somewhat this year on account of our repayments to the International Monetary Fund; he recognizes that in a period of expansion imports will start rising before exports; he does not expect our balance of payments surplus this year to be more than respectable. Yet on the whole the Chancellor's courage is justified. He will need to watch the external position very closely, and he will need to make sure that the various stimulants do not all produce a simultaneous effect. The early months of 1960 may be a period of some difficulty if all the measures have the effect one would suppose. Yet neither the British economy nor the world economy can grow as they should unless countries are prepared to take some of their risks on the side of expansion. That precisely is what Mr. Heathcoat Amory has done.

PAKISTAN

Financial reform
The Economist, London, March 21, 1959, page 1096

Last year the newly installed military government of General Ayub Khan invited two German financial experts to survey the whole field of Pakistan's ailing finances. The experts were Dr. Wilhelm Vocke, the widely respected former President of the Deutsche Bundesbank, and Mr. Rolf Lüke of the Berliner Handelsgesellschaft. Both men are unrepentant advocates of economic liberalism; and their report makes few concessions to expediency. The Pakistani Government has already accepted and introduced a number of their recommendations, including some of those for reform of the foreign exchange system.

The central recommendation of the German experts is that the Budget should be balanced. The first suggestion -- already accepted -- is to give the Finance Minister a veto against expenditure proposed in the Cabinet where funds are not available. Moreover, further recourse to short-term borrowing at the State Bank has been stopped; the experts suggested that it should be legally forbidden so long as the Budget was unbalanced.

To achieve fiscal equilibrium, they say, the emphasis should be shifted from administrative and physical controls to a dynamic monetary and fiscal policy. In the new approach, demand should be restricted in four main ways: 1) Maximum economy in government expenditure; 2) Higher taxation, mainly through new taxes in the agricultural sector (industry and trade should have their very high tax burden reduced to encourage production); 3) Promotion of savings; and 4) If necessary, credit controls. Price controls on both agricultural and industrial products should be abolished, and replaced by price incentives.

The reform most urgently needed has been in foreign exchanges, since a drain on central reserves continued to the point at which they were inadequate to cover both outstanding commitments and immediate requirements. In order to establish equilibrium in the foreign exchange budget, the experts suggested that all foreign exchange dealings should be centralized at the State Bank. Authorized foreign exchange dealers would thus daily have to sell all their intake of foreign exchange to the State Bank, and would be allocated foreign exchange by the Bank according to a specified scheme. Under this plan, 10 per cent of foreign exchange earnings are to be added to the central reserve of the State Bank, 20 per cent credited to an account available for general licenses for imports issued under the export promotion plan, and the balance of foreign exchange earnings divided between an account for government imports and an account for private imports in the ratio of 40:30. Special import licenses are to be issued only from this account, and according to official priorities. A bonus of 20-40 per cent of export proceeds should be given in the form of transferable general licenses, available to bearer, valid for four months. Profits on exports should be exempted from all restrictions and export controls and export licenses should be removed. By putting the emphasis on an expansion of trade, the experts hope that a liberal export incentive scheme will induce exporters to make an all-out effort. The most important objective, however, is to provide a fool-proof system under which no commitments can be made without the resources being first assured for them.

When the Government put the program into effect in mid-January it exempted raw materials from the bonus scheme and did not publish its own program under the special license scheme. Furthermore, controls on prices and profits were not abolished, with the result that importers were not much inclined to pay for general licenses, because they were not allowed to include the price in their landing costs. The Government was reluctant to use the whole of the incoming foreign exchange in the new scheme because of outstanding commitments. The German experts had envisaged a complete fresh start, leaving the old commitments to be covered out of existing foreign exchange reserves, notwithstanding their further diminution. Pakistan's industry is running on an average of 30 per cent of its capacity, owing to a lack of raw materials and spare parts. Further austerity might lead to stagnation.

The German experts do not claim that Pakistan could solve all its economic problems itself. Foreign aid is required and should be given, provided that Pakistan's own efforts represent an essential contribution. The experts believe that the new Government is willing and able to provide such a contribution.

FRANCE

State control of business
The Statist, London, March 7, 1959, pages 357-358 - From Paris

In the course of first encounters with the new-born committee of the National Assembly the Ministers in charge spoke of a prospective foray into the dangerous field of dispute between State and private enterprise. It is not to be more than a foray for, as the Ministers were careful to explain, their idea is not to touch the nationalized sectors (electricity, coal, and gas), but only "the assets of which the State has become proprietor in special circumstances."

The Government here faces a problem of reform which proved too formidable for its predecessors. If by reason of its huge majority in Parliament, its chances must

be better than theirs were, any new attempt at reform is liable to cause trouble. But that reform is needed cannot be disputed, if only because these semi-public corporations or companies inevitably succumb to an innate tendency to spread their tentacles, just as do the strictly nationalized ones.

The Economic Council, acting on a hint from the Government, has produced a "Study on the State's financial participations...." It reveals at once their impressive number, variety, complexity, and diversity of form. The Council finds that at the end of last year the State had direct participations in 57 companies, amounting in nominal capital to just short of 60 billion francs. The largest participations were in the fields of transport and communications, engineering, energy, and international or foreign enterprises. In some companies the State's share is over 90 per cent of the capital, in others it ranges from 50-90 per cent. In addition, the State had indirect participations in subsidiaries and mixed-economy companies in an amount of 40 billion francs; and the "public establishments" of the Bureau de Recherches du Pétrole and the Régie des Pétroles boast indirect participations by the State in a total amount of 100 billion francs.

These participations are of widely different origin and fall under various categories of companies pursuing widely different ends over a great area. The enterprises are subject to varying systems of control and the details of their conduct are not always easy even for the experts to ascertain. The State as a rule gets little financial profit out of their operations except, of course, in the domain of oil, so that during the period 1950-56, of a total of dividends and similar payments of 23 billion francs, no less than 85 per cent came from the sector of energy and all but 4 per cent of the rest from that of transport and communications, though this excludes the earnings of the investment trust founded to take over securities offered in lieu of cash in subscription to a capital levy. There could, then, be no question of mobilizing the majority of the assets other than in oil.

Nevertheless, they represent immense assets and the Economic Council has made an attempt to estimate their break-down value. It suggests that the State's direct participation may be really worth between 350-500 billion francs; inclusion of the indirect participations would raise this amount to between 1,000-1,500 billion francs. It adds, however, that these figures have no common measures with the real value of the permanent capital held by the central and local governments in the form of not only mixed-economy companies, but public establishments, nationalized enterprises, etc. and their affiliations. It cites the latest official estimates as allotting to this capital 70 per cent of the total turnover in the section of energy, 59 per cent in that of transport and communications, and 30 per cent in that of aircraft and automobile construction.

The conclusion is that the inventory represents only a small part of the State's intervention in what was until fifty years ago taken for granted as belonging to private enterprise, and that the question of its financial participation being more or less bound up with that of the organization of the various public enterprises must some day bring a reconsideration of policy on its participations in the framework of a general policy for the public sector. But will this Government, pledged as it is to restore order and sanity to the national economy and finances and commanding a large and probably stable majority in Parliament, have the courage to undertake such a task? One can only say as yet that it has recognized its existence.

ALGERIA

Algeria's reconstruction plan
The Statist, London, February 21, 1959, page 291

The French Prime Minister's main motive in going to Algeria recently was not so much to take the political temperature as to examine the working of the Algerian reconstruction plan. In his Constantine speech last fall, General de Gaulle defined the immediate objectives as being the creation of 400,000 non-agricultural jobs for Muslims, the distribution of 250,000 hectares of land, and education for most Muslim children in five years and for all throughout Algeria in eight. Unlike less ambitious plans for improving conditions of the Muslim population which have been put forward since the beginning of the century, the Constantine plan does not consider settlers. Nevertheless, the difficulties are considerable, apart even from the cost.

The creating of 400,000 jobs is the basic element. This is helped by the prospect of cheaper power from Saharan oil and natural gas, and by the establishment of a number of industries dependent on cheap oil. Unfortunately, these industries cannot be expected to employ large numbers of unskilled labor. There is a further difficulty that whilst it is relatively easy to create factories in Algiers or Oran, the greatest need is to provide employment in the countryside, parts of which have a very high population density.

Public works will for a long time be the most useful source of employment. It is proposed, however, to create local factories connected with public works and with the assembling and manufacture of simpler types of civil engineering machinery. But the long-term program must be based on light industries working for the consumer market. Among the most promising enterprises are factories producing soap, pharmaceutical products, leather and shoes, and fruit and vegetable canning. But there is a serious difficulty which will have to be overcome: competition from France. French manufacturers have always considered that the Algerian market belongs to them and, at a time when austerity is being enforced in France, will fight hard to keep it.

A rough idea of the total cost of the reconstruction plan is 350 billion francs ($708.9 million) per year, half of which will have to be found by the French tax payer. Provided the civil war is still further contained and in two or three years virtually extinguished, the oil and natural gas revenues from the Sahara should help considerably.

A recent reflection of foreign confidence in the future was the decision of the Standard Oil Company of New Jersey to acquire extensive rights, in conjunction with a French company, over a large area near the already operating oilfield centered on Edjelé. The last official estimate of oil output from this and another field are now certain to be greatly exceeded. These estimates showed an output of 8.7 million tons in 1960, rising to 20 million tons in 1963 from the then existing sources.

Another source of revenue likely to help pay for reconstruction in Algeria is that from the huge natural gas deposits in the Sahara some thousand kilometers south of Algiers. A large enough market for this natural gas is not likely to exist in Algeria. There are plans for piping natural gas to Bougie and Philippeville on the coast, generating a certain amount of electricity at those places and exporting the rest to southern Italy and to Spain and thence perhaps to France and the Ruhr.

ISRAEL

Election year Budget
The Israel Economist, Jerusalem, January 1959, page 7

The Budget estimates for 1959-60 submitted to Parliament by the Minister of Finance show ordinary revenue and expenditure at ₤I 820,050,000 ($455.6 million); income and expenditure of the Development Budget are estimated at ₤I 506,500,000 for the same period. There are several interesting facets in the new Budget. The one that will interest the taxpayer most is that he will be expected to supply the Treasury with funds on a scale far exceeding that of last year. Income tax is expected to yield ₤I 305 million, as compared with ₤I 257 million in the current Budget. Since rates have not been raised it may be presumed that the rise is largely due to an attempt to liquidate debts from former years.

On the expenditure side, three facts are particularly worthy of mention: The first is the shift in the subsidy policy reflected by the sizeable increase in export subsidies (from ₤I 42 million to ₤I 55 million), and by the simultaneous drop in net subsidies on consumer goods for the local market (which fell from ₤I 34.5 million this year to ₤I 13 million in 1959-60). Subsidies for the encouragement of capital imports are to rise by ₤I 3 million to ₤I 24 million. The significance of these developments is clear: a greater effort has to be made to prop up the exchange rate of the Israel pound in order to maintain it at its present level.

With regard to departmental expenditure, the Security Budget is evidently being substantially increased. The Ministry of Defense has been given a specific allotment of ₤I 240 million, compared with ₤I 217 million last year; and the "special budgets," which include a security element, are being raised from ₤I 67 million to ₤I 80 million. Departments providing social services to the public are once again having their budgets increased more than in proportion to the growth of the population.

To sum up: The ordinary Budget for 1959-60 shows no attempt to cut down Government expenditure. Indeed the latter continues to rise both in nominal and real terms. It does show that a greater effort is being made to finance public consumption at the expense of private consumption rather than of investment. This is evident both from the larger increase in the volume of taxes and by the bigger transfer of tax revenue to the Development Budget. There is nothing in the Budget tending to check inflationary trends, though the larger general reserve (now ₤I 8.3 million) may prevent deficits. We may conclude that in an election year no better Budget could probably have been expected. But Mr. Eshkol, the Minister of Finance, will have to do something more drastic in 1960-61. /The article contains a table with breakdowns for the ordinary and the development budget items./

ARGENTINA

Foreign capital investment Bill
Bank of London & South America, London, Fortnightly Review, Feb.28, 1959, pp.181-182

The Foreign Capital Investment Bill has been promulgated as Law No. 14780. Foreign capital invested in Argentina for the purposes of developing new productive activities and of expanding or improving established concerns essential for the country's economic development will enjoy the same rights as capital of Argentine

origin. Foreign capital investment requires the prior authorization of the Executive Power which will demand proof of technical and economic efficiency and evidence that directly or indirectly the capital introduced will contribute to the substitution of imports or to the expansion of exports, or will be conducive to a rational or balanced growth of the Argentine economy.

The investment may take the form either of foreign exchange or of machinery, equipment and installations, spares, raw materials, and other supplies during a period to be determined in each case. Preferential consideration will be given to investment for the processing of Argentine industrial raw materials; for the production of capital and intermediate goods in Argentina; and to those that will incorporate the capital or technical processes of sound Argentine companies already established or to be established. Preference will also be given to investors who undertake to reinvest their profits in Argentina.

Investments will be registered at the free market rate of exchange and the annual net and realized profits accruing from them may be transferred to the country of origin through that market. The repatriation of capital will be subject only to the limitations expressly stated at the time of authorization of the investment. To promote investment in basic activities the Executive Power may extend any benefits permitted under current legislation relating to Customs duties, taxation, exchange and credit treatment and such investments may be included in the system of preferential treatment designed for the promotion and protection of industry; these benefits must be extended to all sectors of production similarly placed. The Executive Power will verify the origin and purpose of each investment and its effect on the normal activities of established local industries, which will be protected in the light of their capacity and efficiency. Local industries will also be empowered to import equipment and production goods similar to those mentioned above, under conditions to be set out in the relevant regulations. In all cases not involving considerations of national defense or security, the Executive Power will give prior publicity to all applications before the investment is authorized.

SHORT NOTES ON CURRENT ARTICLES

Italy - Twenty-five years of activity of the Istituto per la Ricostruzione Industriale - By Pasquale Saraceno

Banco di Roma, Rome, Review of Economic Conditions in Italy, January 1959, pages 5-29. In this article Professor Saraceno, who is Director of Research and Planning of the IRI examines the role the Institute has played since its foundation 25 years ago. It came into being for the purpose of solving the banking crisis of 1933, when the banks had to be relieved of their frozen assets. The inexpediency of returning a large part of these assets to private enterprise transformed the IRI from a temporary agency for their sale into a permanent agency for their control. It has become an institution whose function is to reconcile the political aims justifying public ownership of industries with the need of achieving maximum productivity. Professor Saraceno analyzes IRI's sources of financing, its contribution to national production, and specifically the organizational formula which places public enterprises on a par with private firms. He arrives at the conclusion that this formula can produce maximum returns from the capital invested in public enterprise, an advantage which is of utmost importance to a country such as Italy, where the high level of unemployment is due to an insufficiency of capital equipment. /The article also contains a series of statistical tables./

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CANADA

Trade gap still there despite fall in imports - By Michael Barkway
The Financial Post, Toronto, March 28, 1959, page 3

Boom or recession, Canada still lives on credit. Through the boom, the cheery official voices used to say the huge payments deficit ($1,370 million in 1956 and $1,400 million in 1957) would soon correct itself when the great flood of new investment tapered off. It hasn't. The 1958 deficit from current transactions in goods and services with other countries was $1,112 million, twice as large as any year previous to 1955. Recession reduced the year's growth of foreign indebtedness only from $1.4 billion to $1.1 billion. The 1956-57 boom has left Canada with built-in obligations which bring the country very near to the position of a debtor who can cover past debts only by fresh borrowing. With the lowest trade deficit in five years, Canada still earned in 1958 only 85 cents on every dollar it paid abroad.

The reason for Canada's continued failure to pay its way, even when recession had reduced imports, lay in the so-called "invisible" items. The largest of these is the service of foreign capital. The 1958 deficit on merchandise trade was only $174 million, $400 million less than in 1957. But the net deficit on non-merchandise items continued the steady rise which it has shown since 1952. From $300 million in 1952 it has risen year by year, til in 1958 it reached the total of $938 million, which a few years ago would have been considered unsupportable.

More than half of this deficit on "invisibles" has consisted ever since 1949 of the net payment of interest and dividends to non-resident (mainly United States) owners of Canadian stocks and bonds, and to parent companies drawing dividends from Canadian subsidiaries. Last year was an exception. Net payments of interest and dividends, at $433 million, were less than half the total deficit on "invisibles," but if the United Kingdom had not resumed payments on its official loans, which were missed in 1957, the interest and dividend total would have continued its steady upward rise. This was the main reason for an increase in debt payments to Canada, which was enough to offset the increase in Canada's payments abroad.

Recession brought no relief from this annual drain of debt and dividend payments abroad. The 1958 gross total was the same as in 1957, just under $600 million. Dividend payments were down, with lower levels of profits in the earlier part of the year. But higher payments on fixed-yield debt made up for this. Payments to all countries in this category were $523 million in 1956, $593 million in 1957, and $594 million in 1958. To the United States, however, they grew more quickly, and 1958 brought no respite. Canadian interest and dividend payments to the United States, without taking account of Canadian earnings in the United States, were $383 million in 1956, $427 million in 1957, and $486 million in 1958. It is already certain that this annual increase will continue; 1958 added $650 million to the Canadian securities held abroad. Most of this was in bonded debt, and an even higher proportion than in previous years went to the United States.

More than half of it was in the form of the junior governments, with a higher coupon than issues of previous years. The corporate issues, including stocks and bonds, were down to $300 million, from $590 million in 1957. On the other hand, government issues sold in the United States in 1958 came to over $350 million, compared with $157 million in 1957. Since the 1958 issues pay higher returns than those in 1957, this obviously means another "built-in" increase in Canada's annual payments abroad. This annual increase in fixed obligations to foreigners has to be coupled with the dividends which foreign companies are likely to withdraw from their subsidiaries as the development phase ends and the profitable production phase starts.

When freight and shipping payments as well as Canada's growing travel expenditure abroad are added to these consistent deficits, it looks as though returning prosperity in 1959 will again find Canada unable to pay even as much as 85 cents on the dollar spent abroad. The other 15 cents is adequately covered now by the inflow of capital — nearly $400 million, even last year, for direct investment, and more than $700 million in other forms. But, of course, each increase in capital inflow increases the obligation, in debt payments or dividends, of future years. If it is already true that Canada must borrow to pay the interest on past debt, obligation increases with each year's borrowing.

Budget for 1959-60
The Times, London, April 11, 1959, page 5 - From Ottawa
The Financial Post, Toronto, April 18, 1959, page 16

In his Budget speech before the House of Commons on April 9, Mr. Fleming, the Minister of Finance, estimated total revenue in 1959-60 at $5,267 million (after tax increases), and total expenditure at $5,660 million (excluding the old age security fund deficit), which leaves a deficit of $393 million. Of the total income, $4,757 million is tax revenue, and $510 million is non-tax revenue.

Although the new Budget calls for a $352 million tax increase, few immediate cries of anguish are heard at the "recovery" Budget which Mr. Fleming introduced with the object of lowering the Government deficit. Basically, he has avoided extreme measures while adhering to the relative distribution of the tax burden among different income groups. The tax on personal incomes over $3,000 is to be raised by 2 per cent beginning July 1, while that on company incomes above $25,000 is increased from 45 to 47 per cent, retroactive to January 1. There are increases in excise duties on spirits. The sales tax will be increased by 1 per cent, affecting chiefly cars and most other durable goods. The object of this increase is to meet the growing deficit in the old age security fund, and it is expected to provide more than half of the additional revenue budgeted. Another source of fresh revenue will be the raising of the maximum contribution to the old age pension fund from $60 to $90 a year.

In spite of the higher taxes, Mr. Fleming foreshadows that the Government will still face a deficit of $393 million in the year ending March 31 next. This compares with a deficit of $617 million in 1958-59. The Minister indicated that he would have had to raise taxes still higher to bring out a balanced Budget, if the economic recovery from the recent recession had been fully achieved.

GERMANY

Economy to supply capital needs by issue of shares

Deutsche Bundesbank, Frankfurt a/M., Press Review, April 8, 1959, page 5 (in German)

The Ministry of Economics has expressed the opinion that capital requirements for essential investments should be supplied, insofar as possible, via new share issues. This procedure would put the economy on a broader basis of furnishing its own capital needs. At the same time it would serve an additional purpose which the Government considers of particular value: the participation of wider circles of the population in producing capital.

The Ministry of Economics points out that private participation as compared with participation by the banking institutions is still much too small and that capital formation must be strengthened by direct investment of private savings on the capital market. It is, of course, recognized that at present the incentive for new issues is very low. The public hesitates, not only because of tax requirements, but also because of the economic situation, the lack of a law concerning postwar adjustment of balance sheets, and the pending reform of the corporation law. During the last few years new issues of shares have decreased considerably; they have dropped from DM 1.8 billion in 1956 to DM 1.1 billion in 1958. In the first two months of this year only DM 198 million were issued as against DM 265 million in the same period of 1958.

The prospects for the capital market in 1959 are encouraging. Because of a consistent savings activity of all kinds there has been considerable structural improvement in the capital market. In 1959, on the basis of favorable trends in interest rates, more foreign issues may be placed on the German capital market than was the case in 1958. It is also expected that the communities, the German States, and the needs of the construction industry will make large demands on the capital market, but it remains to be seen whether the Federal Government will find it necessary to go to the capital market in the course of this year.

BELGIUM

Changes in Belgian financial policy
Neue Zürcher Zeitung, Zürich, March 22, 1959, section 11 (in German)

The Belgian Minister of Finance, Professor Van Houtte, has submitted to Parliament a plan for the introduction of an "anti-cyclical" financial policy which, among other things, will guarantee that henceforth the Government -- frequently in a happy spending mood -- will observe the necessary discipline in public spending. The plan provides for the establishment of a budgetary equalization fund, which is to receive the deficits arising in "lean" years together with a part of the increased revenue and of the ordinary Budget surpluses achieved in "fat" years. This provision is to become effective in 1960, but only if fiscal revenue rises above 100 billion Belgian francs; thus, for all practical purposes, the equalization fund will not begin being built up until 1961.

Under this plan the Belgian National Bank is to assume all responsibility for the Belgian quota and all other commitments with the International Monetary Fund. The Minister of Finance pointed out that in many other countries all liabilities to the IMF have from the start been assumed by the central bank. In this connection the Bank, before long, will also be liable for the Belgian share of the 50 per cent increase in the capital of the IMF. An amount of 2.8 billion francs, which the Bank is to refund to the Government under this plan, would be utilized for open-market operations conducted by the Fonds des Rentes under the control of the National Bank. This would mean that the scope for an effective anti-cyclical open-market policy, introduced during the monetary reform of 1957, would be considerably widened.

After an amount of 7.2 billion francs shall have been paid into the budgetary equalization fund, a royal decree is to decide whether this practice shall be continued. It is emphasized that the Government will have to decide -- on the basis of existing economic conditions -- just how the money in the equalization fund is to be utilized, taking into consideration that operations in the Belgian money and capital markets are to be guided, through the Fonds des Rentes, by an anti-cyclical policy.

Although the Government has succeeded in reducing by half the original deficit of 10 billion francs in the ordinary Budget for the current year, the equalization fund will not possess any resources for the present and therefore will not be in a position to support the Fonds des Rentes. The Minister of Finance has emphasized that the sum of 2.8 billion francs turned over to the Government by the National Bank would not flow into the Treasury, but would be put at the disposal of the Fonds des Rentes. Moreover, under the provisions of the money market reform of November 1957 the National Bank has opened a credit to the Fonds des Rentes of up to a maximum of 2 billion francs. Together with other resources of about 4-5.5 billion francs (arising from the issue of its own certificates), the resources of the Fonds des Rentes will amount approximately to 10 billion francs. This sum is to be utilized in the first place for short-term accommodation loans at a time when the usual tightening of the market occurs during the first phase of an economic re-expansion. In addition to the 10 billion francs, the Fonds will receive -- in boom times -- the amount turned over to it by the State in accordance with the regulations of the budgetary equalization fund which, for the time being, may reach a maximum of 7.2 billion francs.

Within the framework of the changes in the Bank's obligations towards the IMF, the Bank Law is to be amended. It is planned to let the permanent debt of the Government with the National Bank stand at the current level of 34 billion francs, so that the State will be freed from any further repayments on this debt. Although this "consolidation" is not one of the sweeter aspects of the plan, the Minister of Finance believes -- perhaps for political rather than for financial reasons -- that continued debt repayments by the Government to the National Bank would really amount to a "deflationary pressure which is seldom justified."

SOUTH AFRICA

Budget surplus of £ 10 million for 1958-59
The Times, London, March 26, 1959, page 11

Dr. Dönges, the South African Minister of Finance, announced a budgetary surplus of £ 10 million for fiscal 1958-59, against the £ 400,000 estimated by his predecessor, Mr. Naudé. Revenue had exceeded estimates by £ 6 million and expenditure was £ 4 million less than estimated, he said. The whole surplus is being transferred, as has now become usual, to the Loan Account.

The increases in revenue come mainly from the gold mines and company and super tax. Taxation readjustments include a concession to all gold mines carrying out ultra-deep-level development enabling them to claim interest at 5 per cent on capital used for such development (as well as the capital itself) as deductions for taxation. Hitherto this concession has applied to new mines only. Building societies, up to now immune, will in future pay company tax on 60 per cent of their income from investments at the current rate of 6s. in the pound, and will be liable to pay stamp duty on capital issues. Mutual assurance companies will also be taxed on income from investments on the same basis as non-mutual companies, but the details are subject to discussions between the companies and the Treasury.

State pensioners of all classes will receive minor concessions, and income tax rebates for children are increased. The price of bread is to be increased by 1/2d. a 2-pound loaf. A new duty on rice will bring in £ 1 million, and there are small increases in the tax on beer, cane spirit, and gramophone records.

The initial taxation deduction of 10 per cent on new industrial machinery is increased to 20 per cent. The tax on diesel fuel is raised to the same level as petrol for road vehicles, but the concession remains for diesel fuel for industrial uses. This will produce an extra £ 2 million in fiscal 1959-60. Increases in postal and telephone charges were announced separately recently, and are estimated to produce an extra £ 7.5 million in a full year, of which about £ 5 million will be surplus. These, with existing taxes, Dr. Dönges estimates, will produce in 1959-60 a total revenue of £ 336 million ($940 million) which, with estimated expenditure of £ 299 million, will enable him to transfer £ 37 million to the Loan Account.

JAPAN

New foreign exchange program
The Financial Times, London, March 25, 1959, page 5

The Japanese Cabinet has approved a new foreign exchange and trade program calling for measures to cope with intensified competition in world markets following

the return to convertibility by West European currencies. The program was drafted by the Economic Planning Board in consultation with other Government agencies concerned with the compilation of the half-yearly import budget for the six months beginning April 1.

The Cabinet decided that Japan should promote her export trade on the basis of long-term estimates of the balance of payments trend, as the future of her external payments did not warrant optimism. Immediate measures recommended were to the effect that Japan should 1) remove currency discrimination, wherever possible, in the import of automatic approval goods, and 2) transfer, wherever possible, items that now require prior allocation of foreign exchange to the automatic approval list. Japan should also increase the number of authorized currencies used for normal trade settlements, relax the terms of short-term credits supplied by foreign exchange banks to finance Japanese imports, ease the terms for Japanese businessmen's overseas travel, and relax as much as possible restrictions on the activities of Japanese firms abroad.

BRAZIL

Balance of payments deficit for 1958
Bank of London & South America, London, Fortnightly Review, March 14, 1959, p. 234

According to preliminary figures published in the Press, Brazil had an over-all deficit in its balance of payments for 1958 of $307 million, compared with a deficit of $204 million in 1957 and a surplus of $166 million in 1956. The deficit in 1958 was financed by drawings of $75 million from the International Monetary Fund, loans from the Export-Import Bank and private United States banks of $100 million and $58 million, respectively, a reduction in assets of $21 million, and an increase in other obligations of $53 million.

CHILE

Anti-inflation move
The Financial Times, London, April 14, 1959, page 15

A law to give shape to the Government's efforts to stop inflation and inject fresh stimuli into Chile's economy has just been approved by Parliament after almost three months' discussion. The law covers the creation of a new monetary medium -- the escudo -- to replace the current peso and the drawing up of anti-trust legislation. The law makes accounting in the agricultural industry compulsory and gives the President of the Republic extraordinary powers to rule by decree. It also details moves to speed up the process of economic recovery, industrialization, and a low-cost housing project. The law authorizes the President to negotiate loans abroad up to a total of 200 million pesos; it also ends the privilege system which copper and nitrate workers hitherto have enjoyed. Henceforth, wage adjustments in these industries will be similar to those made in other Chilean industries.

INTERNATIONAL COOPERATION

The Coal Community faces a crucial test
The Statist, London, March 14, 1959, page 395

Having at last formally decided to set in operation the machinery of the Schuman Treaty which would render possible a limitation of coal production in and

a restriction of coal imports into the Community, the High Authority has launched on an experiment unprecedented in the course of its six years' existence. There is a famous article (No. 58) in the Treaty which, "in the presence of a period of manifest crisis," permits the imposition of quotas on production and another (No. 74), which permits restriction of imports.

The High Authority, considering that the coal crisis has proved incapable of treatment by indirect means, intends to take the first step towards the adoption of direct ones by consulting the Consultative Committee on recourse to Articles 58 and 74, as well as to another Article (No. 95), which would ensure a minimum level of income to miners affected by partial unemployment. The next step is to obtain a majority vote in the Ministerial Council, provided the majority includes a member State ensuring at least 20 per cent of the Community's coal and steel production or, if there is a tie, a vote comprising two member States each commanding such a percentage. It seems likely that the High Authority will succeed, but only on condition that its proposals on restrictions on production and imports be subject to the Ministers' approval. It may well take much time and effort before these proposals can be worked out in a form agreeable to them, not to mention the problem of making them agreeable to countries outside the Community which provide coal to the Community or draw from it. But the High Authority is very decided in its opinion that the crisis demands drastic action in the sense laid down by the Treaty and that, if it is not taken, the whole structure of the Community will be imperilled. It is facing the gravest test of its life.

To work out a system which would suit all member States must take time, because the position of the coal industries in two countries, France and Italy, not to mention Luxembourg, is very different from that in Germany and Belgium. The bulk of France's stocks at pitheads, now almost 8 million tons, consist of low-grade coal, useable only in electric power plants. After importing 5 million tons of American coal in 1957 and 2.5 million in 1958, France will import none this year, having no contracts outstanding. Italy, which produces barely a million tons per year, is traditionally dependent on American coal and will need compensation if she is to rely on the Community in any degree, so as to make her coal as cheap as American.

On the other hand, German coal stocks continue to increase, now reaching 9 million tons, apart from 7 million tons of coke. Belgian stocks are also rising (at 7.1 million tons), as are Dutch (at 765,000 tons). And here there are long-term contracts with American exporters who are not eager to see cancellations or postponements, as both Germans and Belgians have found out.

The High Authority's estimates of the contribution it might have to make to finance the partial unemployment which would result from restrictions on production must be provisional. For it is hard to foresee how long restrictions would have to be maintained and how far imports from outside the Community could or should be cut. Thus the estimates vary from $15-40 million. The High Authority is committed already to a contribution of $7 million for financing stocks; but even so there would be no excessive drain on its resources, even if the maximum estimate should prove to be correct.

However, it is admitted that at least 12 months or more would be needed in the best of circumstances to reduce stocks to normal. German holdings amount to almost the equivalent of one month's current production, the Dutch to over one month's, and the Belgian to more than three months'. In all, the Community's stocks on

February 8 totalled 25.8 million tons, whereas its average monthly production in recent years was less than 21 million. In the current year, according to the High Authority, production and imports will exceed requirements by 7.8 million tons. But according to a report adopted by the Consultative Committee this figure should be almost doubled.

The crisis has led naturally to discussion of the need for enlarging the High Authority's powers, especially as regards imports, and for a general coordination of the Community States' policy on all forms of energy and their general economic policies. The second aim is one of the goals of the European Economic Community. The experts of the Organisation for European Economic Cooperation and of the European Coal and Steel Community have long been studying the energy problem; their report, which should have been available by January 1, will in due course bring the situation up to date, last analyzed in 1956. Sooner or later also the European Economic Commission may be expected to play a role in this field in which the importance and existing absence of coordination is now seen to be the real lesson to be learnt from the coal crisis.

But it can be no easy matter to secure the necessary consent of the six Governments and Parliaments to amendment of the Schuman Treaty and still less easy to get them to agree on any policy embracing energy in all forms, all of which, save coal, fall under the other and larger Community established by the Rome Treaty. Therefore what the coming tests amount to is that of the supra-national powers of High Authority, of its claim to be able to override national interests in the common interest.

Although the coming weeks may bring acute strains and stresses, which will be duly or unduly exaggerated in the Press, it would be rash to imagine that the result will be death or victory for the supra-national principle. A compromise is much more likely. For not even the most enthusiastic advocates of European union have ever believed in anything more than the gradual growth of that principle in the recognition of the Governments which have adhered to it in texts that, after all, betrayed their timidity, but which leave the road to progress towards the goal open as it never was before.

SHORT NOTES ON CURRENT ARTICLES

Western Europe in the world economy - By Christopher T. Saunders

Westminster Bank, London, Westminster Bank Review, Quarterly, February 1959, pages 3-8. Mr. Saunders is the Director of the National Institute of Economic and Social Research in London. His purpose in writing this article is to point out certain features of the part played by the non-sterling OEEC countries in the recent recession period and to study the implications for the future. He calls attention to Western Europe's "remarkable growth as a dynamic force in the world economy." In particular he deals with the German and French patterns of expansion and the prospects for future growth. His conclusion is that the United States is not likely to take measures to speed recovery, that Germany is not willing to take the risks involved, and that France is not in a position to encourage further expansion. Therefore he looks to the United Kingdom for leadership on the road to recovery in the world economy.

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Will long-term rates stay high? - By the Financial Editor
The Financial Times, London, April 18, 1959, page 4

The most striking feature of the monetary situation during the past eighteen months has been the widening gap between short- and long-term interest rates. Short-term rates for the most part shot up with the Bank Rate in September 1957 and have come steadily down with the Bank Rate since; the Treasury Bill rate, for example, has fallen from a peak of 6.6 per cent to 3-1/4 per cent. Longer-term rates, however, have fallen much less steeply. Gilt-edged yields reached a peak in November 1957, when they ranged from an average 5.5 per cent on short-dated bonds to an average 5.8 per cent on stocks with a life of more than 15 years. Since then the yield on bonds has come down to 4 per cent and that on stocks with a life of 5-15 years to about 4-7/8 per cent, but long-dated and undated stocks are still yielding well over 5 per cent. Long-term interest rates in general have not yet fallen to the levels ruling in May 1957, when the gilt-edged market first began to crack. The result has been a dramatic widening in the spread of rates.

High interest rates have so far been an integral part of the Government's policy of "vigorous funding." Last year, despite the need to finance an Exchequer deficit of £ 182 million, maturities of £ 1,268 million, and a rise in the gold reserve of £ 132 million, the authorities were able to reduce the amount of floating debt held by the banking system and the public. They were able to do this only because of the striking success of the National Savings movement and because of conditions in the gilt-edged market which permitted the sale of large quantities of stock to the banks and the public. High interest rates played an important part in both cases.

During the past few months, moreover, another fact has tended to keep yields high. The end of the credit squeeze triggered off a massive increase in bank advances. Liquidity ratios were taut, and the banks could only finance this increase by selling gilt-edged stock on an equally massive scale. Pressure on the banks' liquidity is likely to ease from now on. Their need to sell gilt-edged will be smaller and the authorities will be better able to push the market upwards if they choose to do so. Low interest rates are one of the classical antidotes to recession, and a drop in rates from their present high level would form a natural part of the Government's reflationary policy.

But official statements have remained cautiously enigmatic. In his Budget speech the Chancellor said only that "I shall continue to see that our monetary policy, and in particular our funding operations keep in step with the development of our economic policy generally." Asked about interest rates, he subsequently replied that there was no direct link between Bank Rate and long-term rates, the level and movement of which reflected fundamental conditions in the capital market.

Market hopes of a further cut in Bank Rate have certainly diminished. Interest rate differentials can have a sizeable influence on international movements of short-term capital, and the United States bill rate has risen steadily to over 3 per cent. In the fairly near future, too, the Government's reflationary measures are likely to produce a burst of stockbuilding; if this is to be prevented from snowballing, a fairly high level of overdraft rates may be thought desirable. Moveover, although many companies are again beginning to take an interest in Treasury bills, the anticipated increase in the volume of bills may prevent bill rate from dropping much further below Bank Rate.

Short-term rates, however, are inherently unpredictable and liable to fluctuate sharply with changing circumstances. What of long-term rates, the present level of which is so paradoxically high for a period of reflation? In the gilt-edged market, it is fair to say, few people are expecting an early drop. One effect of the reflationary measures which the Government has taken is an over-all Budget deficit estimated to rise from £ 182 million to £ 721 million. It is true that maturities this financial year amount only to £ 950 million, and that the cost of financing a rise in the gold reserve is unlikely to be significant. But the difficulty of borrowing £ 1,671 million in the market at a time when companies and local authorities may also be competing briskly for funds, and when a business revival, an election, and a contracting payments surplus may be making for caution among investors, should not be underrated. Part of the Government's need, of course, will come from an expansion in the volume of floating debt held by the banks. An increase in the effective supply of money is essential if interest rates are not to rise still further as production expands. But the remainder must come from four sources: bills sold outside the banking system, tax reserve certificates, National Savings, and sales of gilt-edged stock.

High rates proved effective last year in all four cases. Tax certificates brought in £ 43.5 and Savings certificates and Defense and Premium Bonds £ 306.25 million. Here alone is £ 350 million, if last year's performance can be maintained. It would be more natural for the Government to raise permitted holdings of certificates and bonds once again than to lower rates before it is sure that there will be no effect on the inflow of small savings.

A similar argument applies to the gilt-edged market. Heavy net sales of securities will be necessary this year in conditions considerably more difficult than those of 1958-59. It is possible, indeed, to sell successfully on a sharply rising market; but the experiment becomes more difficult each time it is repeated, and institutional investors, at a time when interest rates are liable to fluctuate, are wary of the risk of a capital loss. If the market is to meet all the demands made upon it from different sources in a year when inflationary and exchange dangers may be just visible on the horizon, it may well prove necessary to keep prices fairly steady and yields at a level from which they seem most unlikely to move higher.

Unless circumstances change radically, any fall this year in long-term interest rates may be limited. It is worth following a recent attempt by Professor Paish to examine the matter quantitatively. He found that there has in the past been a very close inverse relationship between the yield on Consols and the ratio of bank deposits to national income. If the same relationship is still valid, a reduction in the yield on Consols from 5 to 4-1/2 per cent would need a 35-40 per cent rise in the ratio of bank deposits to national income. This in turn, assuming a rise in net national income this year of 3 per cent, would mean a rise in bank deposits of £ 500 million on the most optimistic assumption and perhaps £ 1,100 million on the most pessimistic; and since the total now stands at about £ 6,300 million, these would be very sizeable increases. Statistics are notoriously unreliable, but Professor Paish's calculations tend towards the same conclusion as the more general considerations mentioned above.

CEYLON

United States help for Ceylon
The Financial Times, London, April 10, 1959, page 8 - From Colombo

Under an agreement recently signed in Colombo, the United States will sell to Ceylon 20,000 tons of rice and 50,000 tons of wheat flour, costing approximately Rs. 40 million ($8.4 million). The rupees will be used in Ceylon by the Ceylon and the United States Governments primarily for economic development projects and business expansion. Of the Rs. 40 million, Rs. 16.3 million will be made available to Ceylon in the form of a 30-year low-interest loan, and Rs. 6.1 million will be given as a grant. The loan will be applied mainly to capital development schemes such as irrigation, and the grant will be used primarily for projects such as health and education. About Rs. 10.5 million will be utilized to promote private Ceylon and United States investment in Ceylon through loans from the U.S. Export-Import Bank.

FRANCE

Bank Rate cut by 1/4 per cent to 4 per cent
The Financial Times, London, April 24, 1959, page 7

The Bank of France has cut the Bank Rate by 1/4 per cent to 4 per cent, effective April 23. Small modifications were also made to the rates for bank rediscounting operations. This is the third reduction in Bank Rate in six months.

The latest reduction has caused no surprise as a cut of 1/2 per cent was widely forecast in February, when the Rate was lowered from 4-1/2 to 4-1/4 per cent. The fact that the cut was at that time limited to 1/4 per cent was attributed to a desire to attract foreign short-term capital by preserving a margin in the London rates. This margin has now been sacrificed.

The influx of fresh foreign capital has played only a small part in the recent build-up in the French gold reserves. The influx occurred almost entirely in January and, according to the Governor of the Bank of France, did not amount to more than $20-30 million.

The new reduction in Bank Rate is unlikely to have much effect on the state of French industrial activity. Most of the severe credit restrictions imposed last year and in the fall of 1957 remain in force. But money supply is no longer a major source of restraint to industry, which has curtailed investment plans of its own accord during the recession. The authorities' real worry remains the visible trade balance. The increase in the volume of exports during the first quarter of this year narrowly failed to make good the cut in their foreign exchange value resulting from the devaluation. The value of exports was some $19.6 million less than in the corresponding period of 1958. The quarterly trade gap was nevertheless much reduced since, despite trade liberalization, the value of imports fell from $1,092 million in 1958 to $896 million this year.

Since devaluation French industry has been largely living off stocks. The Government calculates that once industrial expansion is resumed, imports may rise to about $392 million a month, and exports will therefore have to be increased by a further 20 to 25 per cent. This problem is becoming urgent, and judging by the progress of some basic industries such as cars and steel, the end of the recession will not long be delayed.

FINLAND

Reduction in interest rates
Neue Zürcher Zeitung, Zürich, April 2, 1959, section 6 (in German)

As of April 1, the Finnish commercial and savings banks have reduced their interest rates by 1/2 per cent. The new rate for general bank credits will be 7 per cent, the rate for normal deposits will be 4.5 per cent, and the rate for index-tied deposits with a 50 per cent guarantee will be 3.5 per cent. These reductions are in line with the drop in the discount rate of the central bank on March 1. At that time, the authorities emphasized that this step was undertaken in order to stimulate productive investment by easing credit costs.

At that time also the credit institutions were invited to make only minor or no changes in their interest rates so as not to discourage savings. Banking circles countered that a further narrowing of the profit margin would be disadvantageous for the banking institutions. As a compromise, the credit institutions are introducing a new type of deposit with a 5 per cent interest rate. These deposits, however, will be frozen for 12 months. The banking institutions also point out that the favorable general upswing in savings activity which began in 1958 was first of all due to the returning confidence in the stability of the markka rather than to the relatively high level of interest rates.

ITALY

Export guarantee moves
The Financial Times, London, April 9, 1959, page 5 - From Rome

The scope of the export credit insurance system operated by the Italian Government has been expanded recently. As a result, the percentage of long-term credits extended by Italian exporters, and which may be insured, has been raised from 70 per cent to 85 per cent of the credit granted. The State's guarantee has also been extended to cover the foreign debtors' failure to pay. Formerly only the failure or delay to transfer the credit could be insured. However, this insurance is granted only when the debtor is a foreign nation or a foreign public institution. Failure to pay by private foreign importers cannot be insured.

Increases in production costs, from a minimum of 3 per cent to a maximum of 10 per cent, occurring during the execution of the contract, can also be insured now. Risks deriving from the suspension or cancellation of the contract are also insurable. Italian exporters, however, feel that even after this expansion the Italian export credit guarantee system is inadequate and falls short of the systems applied by Britain, France, and Germany.

Many risks cannot be insured and, moreover, only "special contracts" are insurable and not all Italian exports. The only credits which can be insured are those granted for the supply by Italian industries of entire plants, capital equipment, ships, and some consumer goods of considerable value and quantity. However, a Bill is now before the Italian Parliament expanding the system even further, under which State export credit insurance will be extended to all Italian products. Another Bill provides for an increase in the annual sum which the Treasury may allocate for export credit insurance. At the end of December 1958 Government commitments for export credit insurance amounted to about $305 million and concerned the supply of special equipment for export worth approximately $482 million.

AUSTRIA

Bank Rate lowered
The Times, London, April 23, 1959, page 19

The Austrian National Bank has decided to lower the Bank Rate from 5 per cent to 4-1/2 per cent, effective April 23, it was officially announced. The old rate of 5 per cent had been in force since November 17, 1955.

UNITED ARAB REPUBLIC

Egyptian sterling moves
The Financial Times, London, April 10, 1959, page 5 - From Cairo

A premium of 27.5 per cent will be charged on import permits issued for goods purchased with sterling, according to a spokesman of the Egyptian Ministry of Economy. The same premium will apply to permits given out in future, he added, including those covering requirements of five-year industrialization projects. This level of premium approximates that charged by the exchange control against hard currencies last year, and seems a realistic measure, given the free market rate of the Egyptian pound.

MEXICO

The role of private investment in Mexico's economic development
Banco Nacional de Mexico, Mexico City, Review of the Economic Situation, Feb. 1959, pages 3-5

To promote an increase in private investment constitutes an efficient means for developing a nation's economy and improving the material well-being of its people. This is of special importance in a country such as Mexico, where the national income and the level of people's savings are low, in the face of a rapid increase in population. At the present rate of increase of 3 per cent per year, by 1980-90 Mexico will have to feed, clothe, and shelter 60 million inhabitants. Based upon this same rate of increase, 300,000 additional Mexicans per year will seek employment, and must be added to the existing labor force; this is perhaps the salient problem related to investment. Such considerations, not to mention existing unemployment and an overdependence upon foreign trade, emphasize the necessity of increasing private investment and forming capital without which no rapid economic development is possible.

Private investment plays an important role in internal financing, because of the resources it utilizes. Total gross fixed investment in Mexico for 1957 was 15,510 million pesos ($1,242 million), of which 10,124 million was private investment of 8,499 million pesos of Mexican and 1,625 million of foreign capital. The latter figure includes new investments and reinvestments. The remainder of 5,386 million was public investment. It will be noted that private investment by Mexicans was 83.9 per cent of total private investment and 54.8 per cent of total gross fixed investment. According to a recent prediction, private investment will have to increase constantly in the coming years, because the total fixed investment needed will amount to about 15 per cent of gross national income.

Among short-term inducements to private investment are a continuance of basic undertakings, governmental assistance to private initiative through appropriate legislation and a wise tariff policy, and continuance of public works in fields which lend a stimulus to private investment. The present Administration, in office only a short time, has been continuing its predecessor's policies of furthering the nation's economic development and encouraging private investment in an effort to promote the well-being of the entire population.

URUGUAY

Financial and economic policy
Bank of London & South America, London, Fortnightly Review, March 14, 1959, pp.251-252

On March 1 the newly elected Government took office. In his first address as Chairman of the National Government Council Dr. Echegoyen said that the new régime would restore government prestige and revive public confidence in the Administration. Social protection for the individual and the family under Uruguay's advanced social welfare legislation would be maintained but democracy would be "defended against the danger of state totalitarianism imposed in the name of security and justice." The Chairman promised that Uruguay's declining economy and finances would be restored by good management, defense of the peso, the gradual relaxation of State controls, and the eventual unification of the present multiple exchange rates. Dr. Echegoyen added that production and exports would be promoted, but without subsidies, and he indicated that foreign credits might be sought.

The local Press has criticized past economic policy on the grounds that it has prevented Uruguay from taking advantage of International Monetary Fund facilities. The particular aspects mentioned by the Press are the system of multiple exchange rates, recently disguised as "internal compensations"; the failure to stabilize exchange rates and to take effective measures to check inflation; and the failure to complete Uruguay's peso quota with the IMF after the 25 per cent quota in gold had been lodged. The Press quotes an IMF recommendation that, to correct the balance of payments deficit, Uruguay should stimulate production and export of products that have competitive advantages and that vigorous steps should be taken to check inflation by means of restraint in credit, fiscal, and wages policies. The report quotes the Fund as having recommended that immediate action be taken on these lines and as having offered technical assistance in introducing an exchange reform. The Press states that if the IMF recommendations were accepted new credit facilities might become available through the Export-Import Bank, the United States Development Loan Fund, and United States private banks.

CANADA

Investment plans
Neue Zürcher, Zeitung, Zürich, March 18, 1959, section 11 (in German)

The Canadian Ministry of Commerce has published the results of an inquiry into the investment plans by the private and the public sectors for 1959. About 16,000 industrial and commercial firms, as well as provincial governments and municipalities participated. According to the information received, new investment for the current year will not amount to more than about $8.3 billion, which is $100 million less than in 1958 and $400 million less than in the record year of 1957. Moreover, investment in industry will account for a smaller proportion than ever before, whereas there will be a rise in investment for construction of public and private buildings. The construction industry and social projects will absorb 44.5 per cent of total investment funds, compared with 42.5 per cent in 1958 and 35.1 per cent in 1957.

A further decline in investment is also noted in the lumber and paper industry, in the mining industry, the oil industry, and the electric power industry. This is rather surprising as economic conditions appear to be taking a favorable turn for 1959. The Ministry of Commerce is pointing out that the plans for 1958 contained many projects which are now in the process of being completed. The decrease in the oil and electric power industries are explained in part by the completion of the St. Lawrence seaway and of the trans-Canadian natural gas pipelines.

INTERNATIONAL COOPERATION

Red herring from Brussels? - Hallstein report
The Economist, London, March 28, 1959, page 1157

The executive commission of the European Economic Community has now completed its first significant political task, a report on the six-nation Community's relations with outsiders -- the first attempt to fill the vacuum left by the collapse of the Free Trade Area. But the Hallstein report got no bouquets from the ministers of the Six when they considered it.

The report begins by analyzing why the Free Trade Area plan broke down. A number of standard Community objections to the scheme are listed; and the report

points out that the new Community is inevitably rather defensive in its resistance to other schemes that might weaken it. It agrees that there is something in the complaint that opposition to the Free Trade Area was slow in making itself felt. It makes no mention of the fact that some French industrialists and politicians do not want Britain in on any terms. It notes the divergence of objectives among the Free Trade Area's sponsors, some of whom wanted a step towards worldwide free trade, others further integration in Europe. The two aims were incompatible, the commission believes. If a Free Trade Area had been loosely organized, tariffs round it would have certainly tended to fall to the level of the lowest; and some continental countries did not want this. But if existing tariffs were to remain effective, complex institutional machinery would have had to be created that might have strangled more trade than it freed.

The commission's post-mortem is interesting enough, but it has not drawn many constructive conclusions. Instead of concentrating on Europe, the report talks at length about the wider world. The commission has indeed discovered some facts which may be of interest to antiquarians -- that Haiti and Salvador, Argentina and Peru, all send a larger proportion of their exports to the Community than Britain does. One wonders for a moment if it is going to suggest they should join. But no such revolutionary suggestion is made. The commission makes a number of limited proposals for a worldwide approach to the problems the birth of the Community has precipitated. The Community, Britain, and the United States should get together to concert policies for reviving the slack economy of the West; the European countries should agree on a joint and positive reaction to the American proposal for worldwide tariff talks in the General Agreement on Tariffs and Trade; and a number of proposals are made to help the undeveloped countries.

In Europe, on the other hand, though the commission gives three cheers for OEEC and three moans for the division of the western part of the continent, it has nothing more positive to suggest than an agreement to enlarge all quotas progressively by 20 per cent during each of the next four years, and to negotiate for other special arrangements if action by the six-nation Common Market hurts outsiders. That favorite British proposal, the "complaints procedure," has boomeranged. The report virtually admits that the commission does not know what to do about the division of Europe. While the Community is in its infancy, it has some interest in ensuring that not much is done at all. And it knows that one member country, France, fully shares that view.

It is tempting to regard the worldwide approach as a red herring, designed to divert attention from the real issues in Europe; no doubt it was partly intended as such. But the proposals on the worldwide plane might be diverted back to a very useful purpose if placed in a different political context -- the context of British membership in the Community. The suggestions of the commission for helping undeveloped countries (commodity agreements, and reductions by European countries in their revenue duties on commodities such as cocoa and coffee) could form a vital part of the big deal with the Commonwealth and the rest of the world which would be necessary if Britain sought to join the Community. And the proposals for tariff talks in GATT would have to be taken up as a matter of urgency if America were to be brought to accept the proposal and if the revision of GATT, which would follow inevitably, were to take place in the right climate. The basic issue behind the Free Trade Area clash, whether Europe should pursue liberal or protectionist policies towards the outside world, cannot easily be resolved; but it is important that the commission has now committed itself on the liberal side.

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May 8, 1959

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UNITED STATES

The American stake in British industry - By J. H. Dunning
The Times, London, April 22, 1959, page 17 and April 23, page 19

Following a debate in the House of Commons on American take-over bids for British firms, The Times has published an article by Mr. J. H. Dunning, Lecturer in Economics, Southampton University, in which he discusses the extent of the United States financial stake in British industry, its economic significance, and whether or not further investment should be welcomed or discouraged.

Official statistics published by the United States Department of Commerce show that by the end of 1957 direct investment by American corporations in the United Kingdom had reached $1,899 million. Of this amount, some 85 per cent was concentrated within manufacturing industry and petroleum refining and the balance in public utilities, trade, and financial ventures. Assuming that the rate of net capital growth in 1958 was the same as that between 1955 and 1957 (14.7 per cent), the American stake by the end of 1958 would have reached $2,178 million. Add to

this figure a further $78 million, which represents the combined worth of the recently acquired interest of Reynolds Metals in British Aluminium and the proposed purchase by the Timken Roller Bearing Company of the remaining stock of British Timken, then the current value of United States interest in United Kingdom industry must be approaching $2,300 million. Even this figure underestimates the true extent of the American infiltration, for when one takes into account Anglo-American companies such as Ford Motors, Monsanto Chemicals, and Hoover, in which the United States has a controlling interest, then the total capital controlled by transatlantic interests cannot be short of, and may possibly exceed, $2,800 million.

These are impressive figures, but it is important that they should be viewed in their appropriate context. The 375,000 people now employed by the 400 or so United States subsidiaries and Anglo-American firms engaged in United Kingdom manufacturing industry still only account for about 4 per cent of the total manufacturing labor force. Both the financial and industrial distribution of these firms are, however, very uneven. For example, of the $1,600 million of United States capital invested in United Kingdom manufacturing industry in December 1957, nearly three-fifths was concentrated in the hands of the 10 largest firms, and another 20 per cent in the hands of the next 25 largest. There is virtually no American participation in the traditional United Kingdom staple trades, i.e., coalmining, cotton textiles, iron and steel, shipbuilding, and very little in those industries which are essentially of postwar origin, such as atomic power and electronics. At present, the United States representation is almost entirely confined to industries supplying those products which, if they were not actually discovered by the United States, were first exploited on any scale in that country.

Due to the gradual movement of the United Kingdom economy in line with that of the American (rising labor costs and higher living standards are two features of this trend), goods once the sole prerogative of American consumers are becoming more and more demanded in Britain. United States companies have been quick to take advantage of their experience in these fields and, finding their export markets virtually cut off by the postwar dollar shortage, have rushed to set up subsidiaries in Britain. That the rate of new investment by United States firms in Britain might be curtailed in future months (as there is a tendency for continental allocations within the Common Market to become more popular) will not unduly worry some circles who already feel that the domination -- or potential domination -- of British industry by United States capitalists is already assuming dangerous proportions.

How far the recent expressions of doubt about United States penetration of United Kingdom industry simply reflect a national prejudice against foreign, and particularly United States, ownership or control, and how far they represent a genuine feeling of concern that such investment brings with it real economic disadvantages to this country, it is difficult to say. It does seem, however, that the antagonists of United States investment are usually more vocal than the supporters. The antagonists' main economic argument rests on the possible disadvantage of United States investment to the balance of payments position caused by the outflow of dividends, interests, and profits from Britain (which, incidentally, in 1957 amounted to $198 million), and the possible adverse business practices which, if the inflow of foreign capital is uncontrolled, may result from the presence of the less scrupulous business enterprises. The difficulty of this latter argument, however, is that it is not always practicable to impose restrictions on one kind of investment without adversely affecting the flow of capital in other directions and perhaps where it is most needed.

Is it possible to quantify the advantages which this inflow to United States capital is bringing to the United Kingdom economy? Unfortunately, it is impossible to assess the extent of the benefits which derive from the direct linking of United States affiliated subsidiaries in this country with the competitive and dynamic qualities of the American economy and its industrial development and progress. Neither can statistical techniques be easily applied to measure any competitive stimulus which such firms have undoubtedly had and are having on their native competitors. It is suggested, however, that the following effects speak for themselves.

First, between 1950 and 1957 United States subsidiaries and Anglo-American firms accounted for about 7.5 per cent of the net capital expenditure of the entire British manufacturing industry: in so doing there is little doubt that they provided a very valuable additional source of capital when it was badly needed.

Secondly, such firms, through their parent companies, have access to the benefits of more research and development expenditure than the whole of United Kingdom industry (on private account) combined; this has enabled them both to introduce many new products, materials, and processes, and to speed up the commercialization of others.

Thirdly, such firms are at present supplying between 10 and 12 per cent of all United Kingdom manufacturing exports and one-third of the new industrial exports. It is particularly interesting to observe that these firms were also important dollar earners: for example, the dollar earnings of the Ford Motor Company in 1958 exceeded the total income from all manufacturing subsidiaries in the previous year.

Fourthly, some two-thirds of American subsidiaries adopt the principles of United States management and these have undoubtedly been applied to the benefit of the rest of the United Kingdom economy. On the other hand, only 15 per cent of such firms employ American managing directors and an even smaller proportion of their United States personnel. In the great majority of cases, a realistic blending of American ideas adapted to a British environment would appear to have been achieved.

It will, of course, take a number of years before the full implications of the European Common Market on the flow of United States investment to this country will show themselves. In the immediate future, however, it would seem likely that the American stake in British industry will continue to grow, possibly at a slightly reduced rate. It may be that new United States investment projects in Britain will increasingly take the form of Anglo-American partnership -- i.e., in the pharmaceutical and electronics fields -- which is perhaps the medium of investment most widely acceptable.

At the present time United States portfolio (or absentee) investment in this country is also increasing as the yields on some United Kingdom equities are as much as 50 per cent above those earned by the corresponding United States securities. This type of capital inflow, however, brings with it no technical know-how and has probably less to commend it from a long-term point of view. However, such international movements of capital are a normal feature in a world where there is a free interchange of currencies and, save in times of acute speculation and sudden crisis either in the investing or in the recipient country, they perform a useful role in the field of international finance. /The article contains a table giving figures on American direct investment in six European countries for the period 1953-1957./

FRANCE

Revised rules for holdings of exchange
The Financial Times, London, April 8, 1959, page 9

The Bank of France has revised regulations regarding the proportion of foreign exchange holdings which must be deposited with it, banking circles in Paris stated. Up to the end of 1958, French banks had to repatriate a considerable proportion of their foreign exchange holdings in European Payments Union currencies and transfer them at the end of each month to the Bank of France. On the first day of the following month, after the EPU deficit or surplus had been calculated, the banks were allowed to take back the exchange they had transferred.

Under the new scheme the banks must deposit a fixed percentage of their foreign exchange holdings with the Bank of France. The percentage is calculated on their holdings at December 31, 1958. As a result of the convertibility moves at the end of 1958, all exchange holdings are pooled and the banks can thus themselves choose the composition of their deposits, provided the total remains the same. This deposit will not fluctuate and there will be no end-of-month movements. The deposit is now 10 per cent against 15 per cent at the end of March.

GERMANY

Complete liberalization of capital imports
Neue Zürcher Zeitung, Zürich, April 13, 1959, section 4 (in German)

The Deutsche Bundesbank, in agreement with the Ministry of Economic Affairs, has abrogated the last remaining foreign exchange restrictions and thus has achieved complete liberalization of capital imports. The decree becomes effective May 1. The current restriction on loans and other credits raised abroad in German marks or foreign currencies has been removed, as has the limit on the duration of such credits.

Until now, the sale of money market securities to non-residents was not permissible because foreign short-term investment in the Federal Republic was not considered desirable. Beginning May 1, however, German residents may sell domestic market securities to foreigners. Several days ago a decree was made public, according to which the prohibition of interest payments on funds held in German banks by non-residents was to be rescinded as of May 1. From now on, foreigners may hold short-term funds at interest in Germany at any time for the purpose of buying money market securities. Thus the Deutsche Mark has achieved complete domestic and foreign convertibility.

World capital market - Germany lends
The Economist, London, April 11, 1959, page 163

The World Bank has placed its first public issue in Germany. The event marks a considerable success for the authorities at the Bundesbank in their attempt to bring down rates of interest, without inflationary boosting, and match Germany's large external surplus with an outflow of private long-term capital. By last autumn, when coupons on bonds had been brought down from 8 per cent to 5-1/2 per cent, the first overseas issue was possible. It was plain that the World Bank could not pay more than 5 per cent (it recently paid 4 per cent in Zürich and 4-1/2 per cent in New York). The Bundesbank hoped that the market would be ready by spring. It is.

The Deutsche Bank and the Dresdner Bank head a syndicate of more than 70 banks -- the largest syndicate in the German bond market since the war -- taking up DM 200 million ($47.6 million) of the Bank's 5 per cent bonds, repayable by 1974. This issue is the largest offer of non-dollar bonds yet made by the Bank. The money is not tied to spending on German products.

U. S. S. R.

Changes in banking system
The Times, London, April 8, 1959, page 10

The Praesidium of the Supreme Soviet on April 7 decreed a reorganization of the country's system of banks and long-term deposits, abolishing the agricultural bank, the bank for financing communal and housing construction, and the communal banks, according to Tass. Under the decree functions previously performed by the banks will be taken over by the U.S.S.R. State Bank and the U.S.S.R. Industrial Bank.

IRAQ

Oil nationalization unlikely
The Financial Times, London, April 8, 1959, page 9

There is no real evidence that the Iraq Government intends to nationalize the oil industry. When Major-General Kassem, the Prime Minister, was asked at a Press conference about the nationalization of the French share in the Iraq Petroleum Company, he replied "this has not yet been discussed. It will be discussed. The old régime robbed the wealth of the people and gave the oil company the absolute right to dispose of oil wealth in land and sea. Now we are able to drill for oil in the territorial waters and we are having discussions with the oil company, which we hope will be fruitful."

All indications are that the Iraq Government has pressed the Iraq Petroleum Company to release some concession areas which Iraq could develop itself with the aid of Communist technicians. Iraq is trying to obtain improved terms from the oil companies. Nationalization, however, would place the country in a desperate financial position. Iraqi oil is not essential to the West, and other Middle East states would take the opportunity to increase production. Oil companies in Iraq have huge expansion plans already initiated; they expect to increase production from 35 million tons to 70 million in four years. Unless the Soviet Union has guaranteed that Communist countries will purchase all Iraqi oil indefinitely, nationalization would face Iraq with the collapse of its only thriving industry.

NEW ZEALAND

New Zealand eases import curbs
The Financial Times, London, April 14, 1959, pages 8 and 9

Additional imports worth £ 18 million, it is believed, will be permitted in New Zealand this year. Mr. Raymond Boord, Minister of Customs, announced a revised 1959 import licensing schedule, covering mainly raw material and equipment for industry, but also a number of consumer goods. Goods for which increased provision will be considered on an individual basis, however, include leather, certain textiles,

various types of machinery, and certain types of paper. The additional allocations, the Minister said, should bring private imports in 1959 to about £ 210 million ($586 million).

Mr. Boord pointed out that this figure was less than expenditure on private imports in 1958 -- even after allowance for payments against excess licenses which were additional to the 1958 schedule -- but represented a considerable increase on what seemed possible a few months before when the New Zealand Government had looked at reduced export prices, depleted exchange reserves, and the need for reduced overseas borrowing. He stressed that there would be no further relaxation on imports this year. "The 1958 import level was made possible only by borrowing overseas on an unprecedented scale and I believe it is widely admitted that we cannot continue this indefinitely for the purpose of financing current imports." The Minister went on: "It has been a matter of concern to the Government that the balance of payments situation made it difficult to meet industries' requests for material and equipment. The present relaxation will ease the position."

Last year New Zealand had to borrow about £ 50 million abroad. Most of that money was needed in order to cover a current deficit. Since last fall, however, there has been a marked improvement in the trade balance, and as a result the reserves have risen to well over £ 70 million, a gain of over £ 20 million in the last twelve months. What is even more important is the promise that the build-up of the reserves will probably continue. Dairy products are fetching substantially higher prices now than last year, the revenue from meat is holding up well, and New Zealand will in addition be a major beneficiary of the firmer trend in the wool market. Moreover, should any foreign funds still be needed this year, New Zealand can draw on the £ 10 million overdraft arranged with the Midland Bank.

The position can by no means be described as a comfortable one. The basis of New Zealand's export trade remains narrow, both as regards the goods she sells and the countries she sells them to. And it is hard to see how any really far-reaching diversification can be achieved. The advent of the Common Market has placed a question mark against future food exports to the Six. On the other hand, sales to Japan have increased. But it remains true that as one of the world's most efficient agricultural producers, New Zealand's future continues to depend on a lessening of world-wide agricultural protectionism, and there are few signs of that at the moment.

Yet, whatever reservations there may be about long-term prospects, it is a good sign that the New Zealand Government feels confident enough to allow additional purchases overseas. British exporters may not derive any very great benefit from the relaxations which have been made, but any step which New Zealand feels able to take towards a liberalization of her import policy is a step in the right direction.

COMMUNIST CHINA

Growth of China's economy
The Times, London, April 16, 1959, page 10 - From Hong Kong

A remarkable growth in China's national economy last year is depicted in a statement issued by the State Statistical Bureau. All but one per cent of the rural households, it is declared, are now organized in communes "providing a sure guarantee of their livelihood, and unemployment has been eliminated."

Steel output exceeded 11 million tons, and gross industrial output rose by 66 per cent over the 1957 figures. Investment in capital construction equalled half the total investment in the first Five-Year Plan. More than 1,000 big industrial and mining projects were under construction last year, the report states, and of 700 which began production, 54 were major projects built with Soviet help.

Grain output (which presumably includes 45 million tons of maize) reached 375 million tons. The cotton crop was 3,300,000 tons. Inland shipping routes, increased by 7,000 miles by deepening and dredging, now total 100,000 miles. The crude oil output reached 2,250,000 tons, and 16,000 motor vehicles were manufactured.

VENEZUELA

Revenue problems
The Financial Times, London, April 14, 1959, page 5

Venezuela's concern over the foreign oil companies' cuts in the price of crude oil comes soon after an official announcement that Venezuela is not proceeding with negotiations for a substantial dollar credit. This was to have been about $290 million, subscribed by a group of mainly American banks.

Señor Mayobre, the Minister of Finance, explained recently that this credit was no longer necessary, as receipts from increased income tax were now adequate to cover the country's financial needs. The Minister added that these receipts were now around $1,500 million, which would enable Venezuela to balance its Budget and also continue with an expanded public works program.

Dr. Perez Alfonso, the Venezuelan Minister of Mines, has stated that when the oil price cuts are implemented they will mean a serious drop in revenue for Venezuela. It remains to be seen what steps the Government will take to counter this. He has said that an official commission will be set up to coordinate production and marketing of oil and that the collaboration of the foreign oil companies would be sought. Earlier the Minister had announced that the plan to form a national oil company was definitely going ahead and he added that this company would in no way interfere with the activities of private oil companies which, he stressed, were of the greatest importance to Venezuela's economy. This statement has aroused a good deal of criticism from Venezuelan nationalists who are pressing for a policy of what they describe as "greater sovereignty" for Venezuela's oil.

GOLD

Investment in gold
The Bankers' Magazine, London, April 1959, pages 321-322

The resumption of large-scale buying of gold for investment, recorded in the Annual Bullion Review of Samuel Montagu & Company, is a sign of the times, indicating the recent change of world opinion on the future of the United States dollar. New investment in gold in 1958 is estimated by Samuel Montagu at an aggregate of 8 million ounces, valued at £ 100 million ($280 million), compared with 1.5 million ounces in 1957. This increase more than counterbalanced a decline from 7.5 million ounces to 4 million ounces in the normal hoarding demand for the metal. The broad distinction made between the two types of purchase is clear-cut. Hoarding as generally practiced, mainly in Eastern and some European countries, is a precaution

against political upheavals or a depreciation of the national currency. Funds invested in gold by institutions and individuals are those which would otherwise have been invested in securities or other interest-bearing assets.

Heavier investment in gold last year is attributed to growing distrust of the dollar, a devaluation of which would automatically raise the gold price above the present $35 an ounce. The possibility of a higher price led some European banks, as well as private investors, to convert dollar assets into gold, most of this new investment being carried out in London, Switzerland, or Toronto. Samuel Montagu recall that this kind of business was quite usual in the London bullion market prior to 1939 when very large gold deposits were established in London by non-residents. Regarding the unfavorable views now held in some quarters on the future of the dollar, they state: "Although we do not foresee a loss of confidence in the dollar in foreign financial circles in the immediate future, one cannot exclude the possibility that a further decline in dollar holdings caused by the American Government's difficulty in handling their financial problems might well force the hands of the American authorities."

SHORT NOTES ON CURRENT ARTICLES

Australia and her Asian neighbors

Far Eastern Economic Review, Hong Kong, March 5, 1959, Supplement, pages 317-332. This Supplement contains a number of brief articles which emphasize the economic relations between Australia and its South-East Asian neighbors. One of the articles discusses the significance of Australia's industrial expansion, even though the country remains an important exporter of primary products. Australia's pattern of trade with Asia has undergone changes in recent years; these are reviewed briefly, country by country. In the past Australia has been an importer of capital; since the war, however, South-East Asian countries have benefited by contributions made by Australia under the Colombo Plan. Besides exporting capital equipment to these countries, Australia has also provided technical training and is showing an interest and a willingness to invest in Asia.

Economic and financial developments in India - By B. Narpati

The Statist, London, March 28, 1959, pages 474-477, and April 4, pages 514 and 516. Mr. Narpati, who is a former Financial Correspondent for The Press Trust of India in Bombay, presents his views on recent banking trends in India and describes their background. In the first article he gives a brief review of banking practices in India centuries ago. He then analyzes modern Indian banking facilities, emphasizing the role of the indigenous banks. The article ends with a description of the oldest group of banks in India, the exchange banks, and their functions. The second article deals with Indo-British business relations and India's foreign trade in general. In the past, India has leaned heavily on the United Kingdom as its chief trading partner. It looks again to this partner from which it expects to receive its chief support in its efforts to obtain sufficient foreign capital without which economic development cannot be stimulated or sustained.

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GREAT BRITAIN

Reflation discounted

The Economist, London, April 25, 1959, pages 353-355

The British economy is about to receive a record injection of budget reliefs -- £ 366 million in the current year. There will be more money to spend on industry's products and more money to invest in industry's shares. Yet buyers are still chary, even though an early election now looks less likely. Ordinary shares edged to a peak the morning after Budget day, but the day after they had one of the sharpest falls since Bank Rate was raised to 7 per cent in 1957. Buyers with an eye to selling after a good Budget were quick to take profits and though the market improved later, prices are no higher than on Budget eve. Is this profit-taking of real significance? Has the big rise in equity prices in the past twelve months already discounted industrial recovery or are prices now poised for a new lift?

The central doubt is not whether the degree of reflation that the Government has decided on will give industry a boost, but whether it can do so without involving financial troubles. Inflation helps equities in the long run; but that has not proved a completely dependable maxim in the short run. The long run drift to

equities continues, but investors have learned that a rise in ordinary shares that is accompanied, and perhaps prompted, by doubts about the stability of the currency can undergo a severe reaction when the authorities are forced to take counter-inflationary measures.

Investors today keep a careful eye on the "yield gap" -- the margin between dividend yields on ordinary shares and long-term rates of interest set by the yield on irredeemable Consols. In 1951, 1955, and in 1957 inflation or fears of inflation narrowed the yield gap almost to extinction; in each case, official measures taken or anticipated by the market restored the traditional margin. During 1958 the gap was again reduced quite sharply. This, however, was the result not of a slide in gilt-edged prices, which were themselves rising, but of the steeper rise in equity prices which more than offset increased dividends. Yet the market remembered its historical lesson; after gilt-edged began to show their first weakening since 1957, under pressure of bank selling, equity prices, too, stopped rising, and this year the yield gap has remained steady, though low.

What is in store for gilt-edged in this year of reflation and, perhaps, a general election? Externally, there must be a reduction in last year's bumper current surplus, and some increased capital commitments. But capital is flowing inward, too, and foreign confidence remains firm. Domestically, there seems little reason to fear a quickening of price inflation in the months ahead; wage demands do not look too threatening and expanding production should absorb them. On the other side, pressure will be exerted on the gilt-edged market by demands for new money. This year, despite the continued surplus in the ordinary Budget, the Government has to borrow for capital outlays below-the-line no less than £ 721 million, against £ 182 million last year.

The Bank of England will not be keen to see too much of this over-all deficit financed by Treasury Bills; it would hardly like to lose control of bank liquidity in this period of credit expansion. The Chancellor has intimated that there will be "some increase" in floating debt held in the market. Since advances are still rising, in line with general economic policy, this may simply lessen the banks' need to unload gilt-edged, and liquidity ratios will not necessarily get out of hand. National savings are not expected to do so well as last year's £ 300 million, but another substantial contribution is hoped for. Funding sales need not necessarily be larger than in 1958; they then had to finance the large external surplus and yet they were still sufficient to cut down the floating debt. Thus the gilt-edged market need not be unduly frightened by the dramatic rise in the over-all deficit. Financial opinion overseas, too, might be reassured if the authorities explained that no inflationary financing need be involved.

More money is also likely to be needed by local authorities, which have been encouraged to advance their capital projects into the current year. But given proper handling, the weight of new money ought to be manageable so long as retail prices at home and sterling abroad remain satisfactory. If they do, gilt-edged need not necessarily suffer from reflation. Gilt-edged have shown little response to the monetary relaxations; for what past experience is worth, current returns are generous in relation to 4 per cent Bank Rate.

On the assumptions that sterling and gilt-edged do provide a stable base, and that there is no change of Government -- both big assumptions at this stage -- one

can be reasonably optimistic about equities. It is true that the impact of the recession on the profits of industry has not been unduly severe. Above all, the equity indices today are only a little above the peak levels of mid-1955, when industrial production was about the same as now. Vast investment programs have been completed since then, and industry should be able to earn good money on them.

In general, therefore, equity prices do not appear to have discounted all the expansion that we have not yet had. The rise of the past year looks almost restrained in comparison with Wall Street. In the United States, too, industrial production has risen little since 1955; but Standard and Poor's index of Wall Street industrials shows a rise of 25 per cent above its level of 1955-57. Yields on the leading stocks average just over 3 per cent. That is well below the yield on United States Government bonds and compares with blue chip yields averaging 5 per cent in Britain. It might be argued that because America is much less dependent on external trade and has much greater capacity to absorb any weakening of external confidence about its currency, it is better able to carry inflation. But Wall Street cannot advance for ever on that reasoning.

The increasing interest that American investors are showing in European securities is motivated primarily by strict calculations of comparative yield. Once the election is come and gone, and if the Tories win, overseas buying of British equities is likely to increase considerably, from the Continent as well as America. While the election shadow remains, with its tormenting range of possible eventualities from controls and capital gains tax to dividend limitation and inflation, large scale of net buying, domestic or foreign, can hardly be expected in the stock markets. But selective buying is active. Obvious favorites are producers of capital goods, which have been hit hardest by recession and the long pause in expansion. Their shares have lagged behind the recent rise, and for the most part they stand below their peaks of a few years ago. Many concerns are making better use of their working capital and with their improved liquidity could expand their business appreciably without the need to seek new finance from the market. The spurt in capital issues in the first quarter of this year was in large part attributable to businesses that had previously been deemed ineligible by the Capital Issues Committee -- including the banks, which have still to complete their round of rights issues, for sizeable amounts.

Otherwise the equity market may not be over pressed, especially if sales and profit margins revive quickly. The best prospect is probably for firms supplying the needs of the increased capital programs of the public sector. But in a year when private investment is not likely to be better than steady on balance, by no means all the capital goods industries can look forward to a quick revival. The course of exports may be a critical factor, both in the business of individual firms and in governing the extent to which re-expansion can be afforded by the nation. It is not exactly a clear prospect before the investor; but then, it never was.

MALAYA

Malaya looks for more capital
The Times, London, April 16, 1959, page 10 - From Singapore

Another step to attract American capital has been taken by the Federation of Malaya. Mr. Tan Siew Sin, the Minister of Commerce, has announced in Kuala Lumpur that an agreement will soon be signed with the United States by which American

private investors will be insured by their Government against risks such as nationalization. The United States has signed a similar agreement with some 40 countries, but this is the first that Malaya has signed. American investors will pay a premium to the Government for indemnification against loss in Malaya through expropriation or nationalization, or exchange control and currency restrictions. In the event of such a loss, the United States Government would take over claims and try to reach a settlement with the Malayan Government.

The arrangement is a small move towards the all-round charter for safeguarding both the private foreign investor against expropriation and the Asian borrower against exploitation which was proposed last year by Tunku Abdul Rahman as Prime Minister of Malaya. Tunku Abdul Rahman's suggestion has had full United Nations support and was described by Secretary-General Hammarskjöld as a "source of inspiration."

The one factor which this charter would not control, but which is probably the most important, is the readiness of the Asian receiver to make the best use of the money. But it is this factor that makes private foreign investment preferable to foreign government investment or loans because private investors keep a much sharper watch on the returns.

ITALY

Slowdown in industrial development
The Financial Times, London, April 22, 1959, page 17 - From Rome

Last year, for the first time in several years, the pace of Italy's industrial development was markedly slower. Total investment in 1958, at the equivalent of $5,704 million, was only 0.8 per cent higher than in 1957. Investment in industry, at $1,652 million, was almost 4 per cent lower than in 1957. Although industrial output showed a slight increase of 2.7 per cent, industries producing capital equipment registered a setback in comparison with 1957. The steel industry curtailed its output by 8 per cent and a similar decline was shown by industries producing machinery and equipment other than electrical. According to the General Report on the Nation's Economic Situation, recently issued, the decline in industrial investment concerned exclusively privately-owned industry, for investment in the State-controlled industries showed an increase.

At the same time, savings and current accounts with banks and with the Post Office tended to swell at an unprecedented rate. Savings accounts with the banks were 20 per cent higher than in 1957 and current accounts 11.8 per cent higher. Post Office savings accounts were 8.4 per cent up. Thus 1958 for Italy was characterized by a slowing down in industrial investment and by a steep rise in the volume of idle cash held by the banks. Not unusually, such a situation has aroused discussions, recriminations, charges and counter-charges throughout the country, particularly between industry and the banks in general. At the recent annual meeting of the Banking Association, Signor Siglienti, its President, and Dr. Menichella, the Governor of the Bank of Italy, openly defended the banking system.

They denied that the banking system could in any way be held responsible for the unexpected situation which arose last year. They said that the exceptional growth of the volume of idle cash was a symptom of the situation, but not its cause. On the other hand, it has always been claimed by industry that the nation's shortage of capital and the resulting high cost of money are the main causes for the still insufficient development of industry.

The reasons for this contradictory and somewhat alarming situation are now being sought. Has private enterprise in industry been lacking? Or has the banking system failed to make available a volume of funds proportionate to its resources? At the Banking Association's meeting the Prime Minister, Signor Segni, stated that the Government would provide incentives designed to stimulate private enterprise.

It is generally thought that last year's slackening of the pace of industrial development was due, in no small measure, to psychological motives. On the one side the banks were probably slow to react to the new situation and to adapt their policies to it. At the same time the many causes of uncertainty, starting with the American recession, almost certainly acted as a psychological brake on private enterprise. First, there were the General Elections in May 1958, which were followed by Signor Fanfani's Christian Democrat and Social Democrat Coalition Cabinet with its somewhat Leftist policy. During the same period, the Government emphasized the role State enterprise and State-controlled industry were to play in the nation's economy.

Now the situation has changed radically. Signor Segni's Cabinet has undertaken to support and stimulate private enterprise, and State enterprise is no longer to play the leading role. The banking system is fully aware of the new trend in the money market and, with its customary caution, will probably not fail to draw the logical conclusion that the candidates for loans need no longer be made to queue up quite as patiently as before.

World capital market - Italy borrows
The Economist, London, April 11, 1959, page 163

Italy is borrowing substantial sums from abroad in a joint operation on the same broad lines as recent loans by Japan, Denmark, South Africa, and Austria. The Cassa per il Mezzogiorno (the Development Fund for Southern Italy) is raising $30 million in the New York market, most of it in 15-year bonds offered through a syndicate headed by Morgan Stanley, and it is borrowing a further $20 million from the World Bank and the European Investment Bank (which serves the six countries of the Common Market). The World Bank, which had already made loans to the Cassa to a total of $240 million, is reported to be considering a further loan of $40 million for the construction of an atomic energy plant north of Naples.

SWITZERLAND

Export risk guarantees eased
The Financial Times, London, May 4, 1959, page 13

The Swiss Government has issued a decree extending the State export risk guarantee, with effect from May 15. The financing of medium- and long-term export business is to be made easier by calculating the guarantee percentage on the delivered amount instead of, as hitherto, on exporters' cost. The maximum rate will be raised from 80 per cent to 85 per cent.

IRAQ

Budget deficit for 1959
The Times, London, April 29, 1959, page 10 - From Baghdad

The Government's share of the Iraq oil royalties is to be increased from 30 per cent to 50 per cent, under the Budget proposals. This is described as a temporary

measure by the Finance Minister, Mohammed Hadid, but it is an important new departure. Hitherto 70 per cent of the oil royalties has been allocated to the Development Board for building up the country's agriculture, industry, and social services. The Board, with its guaranteed income and autonomous powers, was unique among the Middle East oil states. It is to be disbanded soon, and its functions will be divided among the new ministries, the setting up of which has been announced by Dr. Kubba, the Economics Minister and principal architect of Iraq's new economic policies.

The Finance Minister, who outlined the main features of the 1959 Budget, said the Republic's expenditure for the current year was estimated at ₤ 102.8 million ($288 million), the highest level ever reached. Expenditure for the Army accounted for 33 per cent of the Budget, education for 11.2 per cent, and health for 6.8 per cent.

The Minister said the economic recession in the United States had left its imprint on Iraq: oil prices had dropped, and though overseas sales had risen, and were expected to rise again this year to 1 million tons, the Government's royalties would be ₤ 96 million instead of an expected ₤ 110 million. Measures had already been taken to bridge the gap through restrictions on non-essential imports and the banning of some which directly competed with Iraq products; this had saved ₤ 14 million, reducing the surplus of imports over recorded exports (oil is not regarded as an export) to ₤ 84 million. The Finance Minister stated that the deficit would be met by raising the Government's share of the oil royalties and by certain measures of direct taxation. Measures were also being taken to prevent tax evasion. The Minister emphasized that increasing the Government's share of oil revenues was a temporary measure, taken to strengthen the Army and provide better education and social services.

Some other factors which must be taken into account in assessing Iraq's economic position were not included within the range of the Minister's survey. They include the Russian loan of 550 million rubles at 2-1/2 per cent interest to finance industrial and other projects to be carried out by the Soviet under the recent trade agreement. Another is that costs in Iraq are tending to increase sharply, the rise in wages being estimated in responsible quarters at 30 per cent.

VIET NAM

Viet Nam ends French link
The Financial Times, London, April 30, 1959, page 5 - From Paris

Viet Nam is to leave the franc zone. This is the outcome of the trade talks with France which were concluded in Saigon on April 27. The direct consequence of this move will be small as trade between the two countries had been conducted on a triangular payments basis for the past two years. In future it will be settled by payments in convertible francs.

Viet Nam is likely to be the loser from the change in trading relationships. French domination of the Vietnamese market slumped after the end of the Indo-Chinese war, but in those sectors where French exporters managed to hang on sales are unlikely to suffer from the ending of the last remaining link between France and her old colony.

JAPAN

oves to curb coal output
he Financial Times, London, April 24, 1959, page 5 - From Tokyo

The Japanese Government is trying to impose stricter production control on the omestic coal industry as a result of the complete failure of efforts to have volun-ary controls imposed. The Ministry of Trade and Industry hopes to cut coal produc-ion during the May-October period to 41.6 per cent of the production during the ame period in 1957.

The move has been made necessary by the development of a major crisis in the apanese coalmining industry. Coal stocks above ground are currently estimated at bout 12 million tons, nearly a quarter of the nation's annual coal consumption. nder the Government's plan, coal production during the current fiscal year, which nds March 31, 1960, will be slashed to 48 million tons. Consumption during the ame period is put at 59 million tons, although about 4 million tons of this is mported.

Japan's coal industry has been plagued by labor trouble and high costs since he end of the war. Most Japanese seams are narrow and difficult to work, while early all Japanese coal has a very high ash content. Since the end of the war, abor unions have succeeded in forcing management to keep open many mines which ould have been closed from a purely economic viewpoint. Now, however, the mining ompanies are determined to close uneconomic mines and Japan is therefore going hrough a series of bitter labor disputes in the coalmining industry.

In ordering a further curtailment of coal production, the Government realizes he monetary cost involved. Smaller companies will get special loans from private anks and Government-owned banking institutions to tide them over the production ut. It is officially estimated that about $19.6 million will be necessary to keep he industry from disintegrating. Of this sum, about $14 million is expected to ome from private banks, while $2.8 million will come from the Bank of Japan and 2.8 million from the Government's Central Commercial and Industrial Bank.

COMMUNIST CHINA

nother "great leap forward"?
he Financial Times, London, April 22, 1959, page 5

Details of another planned "great leap forward" were given at the recent meet-ng of the Chinese National People's Congress, when the State economic plan for 1959 as outlined by Mr. Li Fu-Chun, a Deputy Premier and Chairman of the State Planning ommission. Mr. Li Fu-Chun stated that the planned value of industrial and agricul-ural output would be 287,000 million yuan ($116,522 million), or 40 per cent more han in 1958. Industrial output would rise by 41 per cent and agricultural produc-ion by 39 per cent.

"The 1959 Plan . . . is both grand and arduous, but at the same time it is a lan that can be fulfilled," he said. Top priority would be given to the develop-ent of industries producing raw materials, fuel, and power. The priority task in ndustry was to raise steel production to 18 million tons, an increase of two-thirds, nd coal production to 380 million tons, a 40 per cent increase.

Mr. Li Fu-Chun added that in 1959, Russia would help in the construction of 125 new projects. At the same time the Deputy-Premier called for a mass campaign to increase production and practice economies to ensure fulfillment of the 1959 Plan. While speakers at the Congress emphasized the fact that industrial and agricultural output had risen in 1958, it was admitted that supplies of some foods and daily necessities were insufficient to meet the growing demand. It appears that some attempt will be made in the Plan to meet the consumer shortages.

The Finance Minister commented in his speech that the shortage of supplies of some non-staple foods and manufactured daily necessities was chiefly due to the increased number of people employed in the cities and the subsequent rise in demand. Hence the Plan calls for the growing of vegetables and other foods near cities and industrial areas to save them being transported from other areas, a measure which would also ease the burden on an already heavily strained transport system.

INTERNATIONAL COOPERATION

Arab States want national petroleum companies
The Financial Times, London, April 24, 1959, page 5

The Arab oil conference in Cairo ended with a statement saying that understanding had been reached on the need for improved participation by petroleum-producing countries in the oil industry on an equitable and reasonable basis with the oil companies. The statement advocated the establishment of national petroleum companies which would operate alongside existing private companies.

The need was stressed for special machinery to coordinate the conservation, production, and export of petroleum, while taking into account the prevailing conditions in the countries concerned. The statement outlined the importance of the creation of an Arab pipeline and referred to the Arab League project put forward by Mr. Emile Bustani, Lebanese millionaire and politician. This proposes that Middle East oil producers and companies should invest 5 per cent of their annual profits in an Arab Development Bank. Producing countries and the oil companies would be shareholders in the Bank, whose funds could be used for development schemes in countries which carry pipelines, such as the Syrian region of the United Arab Republic, Lebanon, and Jordan. If Mr. Bustani's scheme were adopted, £ 35 million would be available for development this year, but with expanding oil production, the funds would reach £ 500 million over ten years. The Arab-owned pipeline scheme, proposed by the Director of Saudi-Arabian Petroleum Affairs, Sheikh Abdullah Tariki, envisages a 1,250 mile, 40-inch pipeline linking oilfields in Iran, Iraq, Kuwait, and Saudi Arabia with Mediterranean ports in Syria and Lebanon. This pipeline would operate along existing lines and would have a capacity of 800,000 barrels a day.

The statement also said that oil companies should consult with the governments of exporting countries before changing the price of crude oil. The delegates exchanged views on the necessity of increasing refining capacity in oil-producing countries, the establishment of petro-chemical industries, and the setting up of training institutes for Arabian technicians to carry out all operations with the petroleum industry. It was also recommended that the oil conference should become an annual event. The conference was attended by some 400 representatives from the Arab States, Iran, Venezuela and the world's major oil companies.

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WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GERMANY

The conflict between Germany and GATT

Neue Zürcher Zeitung, Zürich, April 18, 1959, section 9 (in German)

The conflict which exists between Germany and the other member countries of the General Agreement on Tariffs and Trade has become one of the thorniest problems for Germany. Discussion of the problem has been on the agenda of GATT for the last two years, but it will be coming to a head in the forthcoming session of GATT in which Germany will be the accused and will be criticized and perhaps condemned for not meeting its obligations as stipulated under the agreement with GATT.

Two years ago, the International Monetary Fund declared Germany to be a country with a hard currency. This meant that thereafter Germany, in an effort to maintain its quantitative import restrictions, could no longer claim balance of payments difficulties. Since GATT does not permit any import restrictions, once a country is freed from exchange difficulties, Germany is bound to liberalize its imports in their entirety. To date, however, Germany has not fulfilled this obligation. On

several occasions GATT has voiced sharp criticisms coupled with requests for Germany to rescind the restrictions. GATT has even threatened Germany with retaliatory measures if it did not fulfill its obligations.

Germany has been maintaining import restrictions in the agricultural and industrial sectors. The restrictions in the agricultural field -- which are imposed by every industrial country -- are not severely criticized because there is an "unwritten law" in GATT tolerating such measures via special licenses. Restrictions in the industrial sector, however, are being criticized sharply and relentlessly. About 300 items are subject to these restrictions, among them textiles, clothing, ceramics, toys, and field glasses. All are so-called "Japanese goods"; these imports, under total import liberalization, would have to compete with merchandise from Japan which is being accused of unfair trade practices in these fields.

German industrial circles are very much disturbed over the pressure emanating from Geneva. On the one hand, they are afraid of competition in these sectors in case of complete import liberalization; on the other hand they -- especially the exporters -- are well aware of the consequences and the risks involved if the Federal Republic were to turn a deaf ear to the demands of GATT. In the latter case, the trading partners would retaliate and the German export industries would suffer seriously. The opinion, often expressed, that Germany should liberalize only if the other members of GATT do likewise is not based on legal fact. The rules of GATT state clearly that the principle of reciprocity in the liberalization policy under GATT cannot apply. Well informed German quarters, therefore, do not dispute the fact that the Federal Republic is legally bound to liberalize all of its imports, regardless of whether or not other members of GATT follow the same principle.

It is felt, however, that this obligation is not only a harsh and unjust one, but also one which does not make much sense. One of the principal criticisms directed against GATT is that an international organization which declares that the right to impose import restrictions must depend on the presence of balance of payments difficulties cannot convince the governments to adopt a reasonable economic policy; thus it is aggravating the balance of payments problems in many countries. On the other hand, states which have surmounted their exchange difficulties by applying a liberal economic policy -- such as Germany has adopted -- are being penalized by the existing rules of GATT since they are not even permitted to maintain necessary minimum safeguards.

The pressure on Germany to liberalize completely is particularly alarming for these reasons: Of the 37 members of GATT at least a good dozen have refused to apply to Japan the most-favored nation principle (citing the escape clause in Article 35 of the General Agreement). Only two European members, namely Germany and Italy, have offered the most-favored nation clause to Japan. Pressure from America (for political reasons) at the time prevented these two countries from putting into effect the escape clause vis-à-vis Japan. However, so long as a country still has balance of payments problems -- as Italy has -- and therefore does not have to liberalize completely, the effect of the most-favored nation clause can be minimized. Germany no longer can do so. This would mean that the entire pressure of Japanese exports to Western Europe would be concentrated on the Federal Republic. It is emphasized that being the only European country subject to this pressure makes the situation untenable for Germany. This reasoning is accompanied by complaints over Japan's commercial policy.

The worry in German industrial circles is all the greater as the prospects for finding a modus vivendi with GATT are overshadowed by still another factor. It is well known that Germany's stand in this question is looked upon by many GATT members as a touchstone for the future position of the European Economic Community. GATT fears that, by giving in to the Germans, its future attitude towards the European Economic Community will be prejudiced, and it is prepared to meet a stiffened attitude on the part of several of the member countries.

The opinion is prevalent in informed circles that it will not be possible for Germany in the next session of GATT to circumvent a promise for at least further partial liberalizations in order to meet GATT's request in part at least. In fact, such offers of liberalization may be expected in the agricultural as well as in the industrial sectors. A real solution to the existing dilemma, however, can only be found in a revision of the respective GATT regulations, which will be more in accord with present-day realities.

Germans invest $88 million abroad
The Financial Times, London, May 6, 1959, page 5 - From Bonn

A report by the Bundesbank states that West German private investors made purchases of about $88 million in foreign securities during the first quarter of 1959. These purchases were as high as, or even higher than, the total purchases made between May 1956, when West Germans were first allowed to buy securities floated on foreign bourses, and the end of 1958. Of the 1959 first quarter's purchases, about $65 million went into equities, largely of companies in other Common Market countries. An Austrian bond issue was the biggest item in the purchase of fixed-interest securities. Besides these security purchases, private German investments placed abroad on a long-term basis amounted to $39 million.

As regards the balance of short-term capital movements, West Germany has had a deficit of about $717 million in the first quarter, due to advance payments on arms and to money market operations by the banks. The commercial banks' total foreign investment in time deposits and money market securities stood at $359 million at the end of March. These exports of money have been made possible by the progressive lowering of West German interest rates, and the Bank said that this had largely restored the classic inter-communication of the world's money markets.

FINLAND

Where "model cut" went wrong - By Lombard
The Financial Times, London, April 28, 1959, page 3

The devaluation operation the Finnish authorities carried out in the fall of 1957 /see Weekly Review of Periodicals, September 27, 1957, p. 37 has been followed by a marked improvement in the country's external payments position which promises to be an enduring one. But the restrictive measures taken in the internal field in support of the devaluation (which earned Finland such high praise from the Chairman of the International Monetary Fund at the time) seem to have combined with other factors in producing a depression that is not yielding readily to treatment.

In the first half of 1957, the foreign exchange difficulties with which Finland had been grappling on and off since the end of the war suddenly became intensified. Export earnings decreased and imports were being forced up by the growth of monetary incomes that inflation was bringing in its wake. Gold and foreign currency reserves began to fall apace so that by the third quarter of the year the case for a cut in the external value of the currency on both short-term and long-term grounds had become unanswerable. And in September the exchange rate against the United States dollar was indeed altered from 230 markkaa to 320 markkaa.

There is no doubt that this adjustment has been followed by a complete transformation of the external payments picture. The volume of exports was maintained in 1958 at around the 1957 level. That means that, in terms of Finnish markkaa, they were about 16 per cent higher than in the previous year. Imports, on the other hand, rose by only 2 per cent in terms of the markka , the stimulating effect of the liberalization of spending abroad with which the Finnish authorities followed up the devaluation having been neutralized by the rise in home prices of foreign goods and other factors.

Thus, from a deficit of 15,500 million markkaa in 1957, Finland moved to a surplus of 14,800 million markkaa in visible trade last year. Over the payments field as a whole there is estimated to have been a balance on the right side of about $75 million in 1958, whereas in the year immediately prior to the devaluation there was a large deficit. It seems that the marked turn for the better in the country's general payments outlook has enabled Finnish traders to take advantage of the official decision early last year to relax controls on borrowing abroad. In consequence, the recovery in reserves has been of a larger order than the size of the surplus in visible and invisible payments might suggest; the reserves approached the $300 million mark recently.

In short, Finland has good reason to be satisfied with the outcome of her devaluation, so far as the external side of her economic life is concerned. Where it looks as though she went wrong in 1957 was in allowing herself to be persuaded by the hard money devotees inside the country and outside it to accompany the currency cut with a further intensification of restrictions previously imposed on economic activity in the interests of squeezing inflationary pressures out of the economy. For, as might well have been foreseen, had the matter been adequately thought out, this action, at a time when the country was being subjected to powerful deflationary pressure from the outside world, has had the effect of pitching Finland into a pretty serious recession.

Industrial protection in 1958 was 5 per cent lower than in the previous year over the whole field and in some industries, such as textiles, the fall was of a very much larger order. In volume terms, wholesale trade was 4 per cent down from the previous year, while retail trade dropped by about 6 per cent. Not surprisingly, unemployment has increased appreciably. Early this year it was running well above the levels for the comparable period a year ago, which means that it is of record dimensions for the postwar period.

Just over a year ago, the Chairman of the IMF expressed the view that the handling of the Finnish devaluation had been of such a high standard that it might well serve as a model for other countries. When the writer questioned that claim, he was warmly rebuked by a large section of the Finnish Press. Perhaps there would be different ideas in Finland as to who was right and who was wrong about this now.

GREECE

Investment plans announced in Greece
The Financial Times, London, May 1, 1959, page 5

The Greek Government has published the full text of Greece's most ambitious program so far for economic development. It provides for investment of $3,452 million over the five years ending 1963. Investment from tourism, totalling $50 million from State sources alone, aims at harnessing the growing tide of visitors to Greece; an additional 7,000 hotel beds will make it possible for 750,000 tourists -- twice the present number -- to be accommodated each year.

The other outstanding objectives of the plan are: 1) Increasing per capita annual income from the current $275 to $370, thus lifting Greece out of the category of "underdeveloped" countries. 2) Increasing the national income by one-third and the gross national product by 6 per cent. 3) Raising per capita consumption of electricity by 72 per cent. 4) Saving $280 million annually by industrial development to produce raw materials at present imported. 5) Providing additional employment for 384,000 persons.

YUGOSLAVIA

Yugoslavia rejects Soviet policy for agriculture
The Times, London, May 7, 1959, page 10 - From Belgrade

Yugoslavia's disavowal of the collective system in favor of her own approach to socialization of agriculture is reaffirmed by Mr. Kardelj, a deputy chairman of the Government, in a report just published. The emphasis is on a parallel process of increased farm output through modern means and various forms of cooperation with the private peasants, who still cultivate 86 per cent of Yugoslavia's agricultural land. Mr. Kardelj indicated that Yugoslav peasants need not fear a return to the Soviet-style collectivization policy pursued until 1952 -- methods that would have caused an "open conflict" between State and peasants and would have brought "ruin to our agriculture if we had obstinately continued along this road."

From the time when the peasants were given their freedom to quit the old collective farms, the Yugoslav Government has given much attention to agriculture, but it is in the past year or so that more decisive steps have been taken to raise production, with the aim of freeing the country from the burden of food imports and at the same time developing cooperation with the private peasants. At present, food imports account for 70 per cent of the deficit in Yugoslav foreign trade.

Mr. Kardelj pointed out that he was reviewing the Yugoslav position with two problems especially in mind: the technical improvement of agriculture as such, and the "peasant question" which, he said, was a human problem as well as a technical problem arising from the backwardness of innumerable smallholdings and the conservatism of their owners. Where these small private holdings were concerned, there was a limit, even with modernization of farming methods, to the improvement that could be achieved.

The task of Yugoslav agricultural policy, therefore, was to build up a system of large farms (to be expanded by buying or renting land from private peasants) and cooperatives able to organize a gradual socialization of the land, which was the

only way by which the standard of living and the ways of the peasants would be drastically changed. Although the "socialization of agriculture" remained the ultimate goal the Yugoslavs, said Mr. Kardelj, would seek it by means different from those practiced by the Soviet block, whose system tended to "measure the advance of socialism in the village by mere percentages of collectivized land."

GHANA

Industrial Ghana?
The Economist, London, April 25, 1959, page 350

Ghana's second development plan proposes an expenditure of £ 342 million ($958 million) against available resources of £ 90 million. The planners admit that "the task set is a formidable one, and the financial picture will not be clear for some time." Wisely, they distinguish between immediate projects, which will cost only £ 124 million, and the remainder which clearly require foreign aid. The immediate projects concentrate on productive works. They include much increased expenditure on improved cocoa farming; but they also include large investments in other crops, such as pineapples, plantains, groundnuts, and palm oil, to lessen Ghana's dependence on cocoa. Rubber and tobacco are being planted on a small scale and there is talk of cotton. In the northern territories poor grasses and lack of water inhibit the growth of a healthy cattle industry which would reduce Ghana's dependence on imported meat and milk; Ghana's food bill is growing with rising living standards. But former attempts to diversify the economy have foundered on the difficulty of weaning the cocoa farmers from the easy life of cocoa-growing with migrant labor.

Still more controversially, the plan aims at establishing at least 600 factories turning out more than 100 products, including textiles, worked steel, chemical and building materials, and assembling motor cars. This industrialization, backed by a plan for hydro-electric development costing £ 100 million, is known to be close to Dr. Nkrumah's heart. It has also some bearing on his political ambitions; for he feels that a purely cocoa state cannot sustain the leadership in Africa to which Ghana aspires. For this reason he is ready to forget his marxism and offer inducements to the investor. There will be no nationalization; capital is sure of a fair return; the only condition is a progressive "Africanization" of the staffs of enterprises established with foreign aid.

The foreign entrepreneur in Ghana may ask about industrial relations. Trade unions grew up in Ghana on the British model, but they have now been strictly subordinated to the Government in the Industrial Relations Act. This establishes the Ghana Trades Union Congress as "the representative of the trade union movement in Ghana" and gives it powers to organize the other unions; but the Government must approve its rules, audit its accounts, and may freeze its funds if it "has taken any action not conducive to the public good." Unions are only recognized when they have organized 40 per cent of the workers concerned, and unions for Government employees and teachers are forbidden. The right to strike is circumscribed.

The incoming industrialist must make up his own mind about this set-up. It looks as if he can expect union restraint — so long as he is in favor with the Government. His concern is less to consider the course of industrial relations in Ghana than to calculate how well he will get on with a Government that will brook no political, industrial, or trade union rivals in political appeal, in short, with the African political personality.

NEW ZEALAND

Development fund for New Zealand's industry
The Financial Times, London, May 6, 1959, page 5 - From Wellington

The New Zealand Government will set aside a special industrial development fund of £ 11 million to be available for the expansion of existing and the development of new industries, Mr. Holloway, the Minister of Industries and Commerce, has announced. The fund will be available over the next two years, and it is reliably reported that the money will come from overseas borrowing, as all available current earnings are already committed to normal imports under the 1959 import licensing schedule. Mr. Holloway said that the establishment of this special fund provided the only hope of retaining a full employment policy over the next decade. The fund will be administered by the Industries and Commerce Department, which will select proposals from industry. One of the measuring rods, the Minister stated, would be the likelihood of the industry concerned being able to stand on its own feet, without undue protection. The establishment of the new fund would ensure that New Zealand manufacturers were not placed at a disadvantage against overseas financial interests.

THAILAND

Gold imports
The Financial Times, London, May 4, 1959, page 9

The Thailand Government has decided that the importation of gold should be entrusted to a Government organization, probably to the Bank of Thailand. The Thai Financial Syndicate, which has held the monopoly of gold imports, will not be permitted to continue the trade. The Cabinet has also decided to lower the import duty on gold. No figures were given.

ARGENTINA

"Battle of petroleum"
The Times, London, May 4, 1959, page 8 - From Buenos Aires

In opening the Argentine Congress, President Frondizi outlined achievements and failures of his first year in office. He admitted that not all expectations had been fulfilled, but blamed forces of disorder which had hampered the Government in the execution of its plans. He reaffirmed his intention to fulfill the plans already announced, and said that the authorities would be inexorable in the performance of their task.

The first step in the essential long-term planning was to nationalize the petroleum industry, reconstruct the State oilfields, and secure cooperation between local and foreign undertakings in what the President called the "battle of petroleum." While polemics continued the fact remained that petroleum was being extracted all over the country. The State oilfields alone had increased production by one-third in the first quarter of 1959 in comparison with a year ago. Similar policies, the President stated, had been adopted for coal, electric power, and the iron and steel industries. The forgotten zone of Patagonia would see chimneys and cities in its former sleepy valleys. Nor had agriculture been forgotten. The country was nearing the point at which the exportable beef surplus would be substantially increased while ample local supplies would be maintained.

BRAZIL

Stabilization measures
Bank of London & South America, London, Fortnightly Review, April 11, 1959, p. 331

In a broadcast to the nation, President Kubitschek has outlined the Government's plan to improve supplies and stabilize the cost of living. The plan allows for the continuance of a cautious budget policy, the maintenance of the present exchange system, the stabilization of the rates and tariffs of various state entities, a reduction of 20 per cent in the consumption of fuels, a selective restriction of credit, and the replacement of the Federal Supply and Price Commission by a more efficient means of State intervention that would be of greater assistance to producers. The measures for the reorganization of the country's food supplies would include priority for rural credit, the processing of food products, including cold storage facilities, dairies, slaughterhouses, fish preserving plants, and the construction of silos and warehouses.

The Government's proposals have been welcomed by the various food distributors' associations in Rio de Janeiro and, in support of the Government's aims, retailers agreed to sell eight of the principal articles of food at cost plus expenses for the next thirty days, until the new crops arrived.

SHORT NOTES ON CURRENT ARTICLES

The rehabilitation of the French franc - By Jaques Rueff

Lloyds Bank Review, London, April 1959, pages 1-18. Mr. Jaques Rueff, now a Judge in the Court of Justice of the European Economic Community, was the chairman of the committee of French experts who drew up a program of financial reconstruction in December 1958. In this article he summarizes the salient points of the committee's report. He begins with the principles of strategy to be followed in a sane program of financial reconstruction, among which are a relentless fight against inflation and the restoration of order in the economic structure. The writer outlines specific proposals: a reduction in the over-all deficit, liberalization of trade, devaluation of the currency, and monetary convertibility. The committee's plan for reform was adopted and put into practice by the French Administration as being the only solution to the country's financial plight. Although the plan has been in effect only a few months, not long enough to pass judgment on the results, Mr. Rueff points to many encouraging signs which indicate that the country is on the road toward restoration of financial order and prosperity. He believes the temporary sacrifices called for are well worth the economic benefits to be reaped from this reform.

Survey of banking - International Review

The Financial Times, London, May 11, 1959, Special Supplement, 64 pages. This Survey of Banking is an international review of economic and financial developments in the United Kingdom, the Commonwealth countries, Europe, the Americas, and other parts of the world. The United Kingdom section deals with the progressive improvement in Britain's trading position and the strength of sterling, the relaxation of economic controls and the reaction of the banks to this freedom. Abroad the Survey discusses the activities of the World Bank and other international lending institutions, and the problems of financing the development of the young nations. Among the many countries reviewed are the United States, Canada, France, Germany, Italy, Japan, and Brazil.

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INTERNATIONAL COOPERATION

Fund is using big stick more - By Lombard
The Financial Times, London, May 7, 1959, page 3

Much is being made of the fact that, while the impending increase in International Monetary Fund quotas will mean a considerable drop in member countries' own external resources, it will also bring about an increase of a very much larger order in the "second line" reserves they possess in the shape of their drawing rights with that institution. But it would be as well to recognize that nowadays the Fund is displaying a growing tendency to insist upon those taking advantage of its facilities submitting to its discipline. Recent experience suggests that the resulting increase in the part it is playing in the determination of national economic policies may not be an unmixed blessing for the countries that go to it for help or for the world as a whole.

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Beyond occasionally haranguing them on the virtues of getting rid of exchange controls, the Fund made little effort to intervene in the economic affairs of its

members up to a few years ago. But at the end of 1956 it came under new management, the energetic Mr. Per Jacobsson. One result of this development was a considerable liberalization of the Fund's lending procedures which, combined with the fact that at the time the world was moving into a period of international payments stress, brought a most spectacular increase in the business handled -- in the two succeeding years its annual turnover was more than seven times as large as it had been in the first ten years of its life.

With the increased willingness to grant help went a demand for a much larger say in the shaping of economic policy of those helped. The Fund makes no secret of this. It has a very simple "condition formula" which member countries may take or leave, as they please. And Mr. Jacobsson makes a point of setting it out in almost every speech he makes. The practice of the Fund, he declared when he addressed the United Nations Economic and Social Council a month ago, is that if a member requests to draw an equivalent amount to its own gold subscription, normally 25 per cent of its quota, the Fund gives the member the overwhelming benefit of the doubt. For the next 25 per cent a country requesting assistance must show that it is making reasonable efforts to solve its problems. Requests for drawings beyond these limits require "substantial justification, namely that the drawing must be in support of a sound program likely to ensure the enduring stability of the currency at realistic rates of exchange." And the term "substantial justification" means, it should be emphasized, what it says.

Thus Mr. Jacobsson has revealed that the assistance the Fund extended to the United Kingdom in December 1956 was granted only in exchange for a firm British undertaking to pursue strict financial and credit policies, to maintain the value of sterling, and to avoid the imposition of quantitative restrictions. He has also disclosed that Chile, Turkey, Argentina, and France have all had to agree to apply the stabilization treatment along the lines recommended by the Fund before they got the help they badly needed. And it has to be remembered in this connection that the pressure on members to yield to the Fund's big stick is made all the more effective by the fact that they usually stand very little chance of getting help from other directions if the Fund is unwilling to come in, whereas, if the assistance of that institution is obtained, they can often expect to receive help from foreign governments and banking institutions under some kind of package aid.

In short, the Fund is no longer the kind of old cuddly teddy-bear that it was up to a few years ago -- so tolerant and indulgent that it was hard to see why a few Western countries regarded it with such suspicion that they were unwilling to have anything to do with it. Now that may not, of course, be altogether a bad thing in itself. It is, after all, in the general interests of member countries that the Fund should not waste its resources on helping lame ducks that refuse to do anything to help themselves. And a little outside pressure to get them back on the straight and narrow path may often be in the true interests of members, even though it is unpalatable at the time.

The worrying aspect of the Fund's new practice, as it appears to the writer, is that it means that the work of shaping national economic policies is coming to be increasingly influenced by the ideas of top-management at the Fund. And there can be little doubt that top-management at the Fund since Mr. Jacobsson's reign began has favored an orthodox approach to stabilization that usually means the country that accepts its help is doomed to forego economic expansion for many years. It can hardly be an accident that most of the countries which have accepted its new-style

discipline in order to get assistance have been grappling with recessions of one kind or another during the past few years. And, of course, if the Fund is insisting upon disciplining many of its members in such a way that they have to eschew expansion, the rest of the world must also accept a slower rate of progress.

The Inter-American Development Bank
Review of the River Plate, Buenos Aires, April 10, 1959, pages 9-10

The Charter of the Inter-American Development Bank was signed by representatives of the American Republics in Washington on April 8 and is now awaiting ratification. The principal functions of the Bank are to promote the investment of development capital (public and private) in Latin America; to grant and guarantee loans designed to develop the resources of the region; to help Latin American countries to plan their development programs; and to provide technical assistance in the preparation of plans and development projects.

The Bank's headquarters are in Washington, and its policy will be decided by a Court of Governors consisting of one representative from each Republic. The day-to-day business of the Bank will be conducted by an elected president and seven directors, one of whom will be from the United States, the other six being elected by Latin American representatives.

The new Bank will have a capital of $1,000 million, of which $450 million will be provided by the United States. The capital will be divided into two distinct categories. The banking section will have a capital of $850 million, and will be empowered to grant loans in dollars, which loans must be repaid in the same currency. The remaining $150 million of the Bank's capital will be used to finance a development fund, from which loans will be made in various currencies (including dollars); these loans will be repayable in local currency.

Member countries are required to pay only a part of their respective quotas, the rest being held at the Bank's disposal for use as and when needed. Of the banking section's capital of $850 million, $400 million will be paid up: $150 million by the United States and $250 million by the other Republics. Half of the latter sum will be paid in dollars and the rest in local currency. Except in the case of the United States, the contribution paid by each Republic to the development fund will be one-tenth of the quota to the banking section's capital. /The article contains a table giving the quota to be paid by each Republic to the banking section and the development fund./

Instalment credit in Europe
The Financial Times, London, May 1, 1959, page 13

An agreement to set up a confederation of European instalment credit companies and organizations was reached at the first international conference on instalment credit finance held at Bonn on April 27. Announcing this in London, the Finance Houses Association stated: "Since consumer credit in all European countries has reached a position of considerable economic importance and since also the nature of instalment credit business is very similar in each country, it was generally recognized and accepted that cooperation between European instalment credit finance houses might be useful and a worthwhile addition to the work of the national associations in the various countries." The inaugural meeting of the confederation will take place in Amsterdam on November 5 and 6, 1959.

FRANCE

France frees more imports
The Financial Times, London, May 8, 1959, page 5 - From Paris

The Journal Officiel of May 7 publishes a list of new imports from member countries of the Organisation for European Economic Cooperation freed from quantitative restrictions. These include a number of textile goods (among them synthetic fibers, cotton tissues, and woolen clothing), some steel alloys, certain types of glassware, dyestuffs, and assorted imports ranging from coffee grinders to wax candles. The increase in the percentage of liberalization (previously 90 per cent of OEEC trade on a 1948 basis) will be slight. The principal object seems to be the maintenance of internal price stability, particularly in the textiles sector, by means of the threat of foreign competition.

Exchange move
The Financial Times, London, May 14, 1959, page 1

The French Ministry of Finance announced that as from May 14 foreign bank notes may be sold both by French residents and foreigners for francs, without proof of identity. A spokesman for the Ministry said it regarded this step as an important relaxation of foreign exchange regulations, and as another move to fight the "black market" in foreign currencies in Paris.

BELGIUM

Both lender and borrower
The Economist, London, May 9, 1959, page 557

Belgian investors are subscribing to the first issue of Belgian franc bonds of the World Bank; the offer is equivalent to $10 million and is in 5 per cent bonds repayable within ten years. At the same time, the Belgian Government is borrowing $22 million on the New York market. It is intriguing that the two flows of money should be proceeding in opposite directions at the same time. The explanation for Belgium's New York borrowing seems to lie in the peculiar difficulties of the Belgian Treasury, which has no magic influence with the central bank and is chronically short of funds. This is not the first time that the Belgian Government has borrowed abroad to meet a deficiency not of foreign exchange but of Belgian francs. The conjecture is a rare one in the modern world -- and not entirely displeasing to the old guard of sound money men.

IRAN

New banking consortium
The Economist, London, May 9, 1959, page 558

An international banking consortium is being formed to cooperate with the Persian Government in the establishment of a new development bank. The project has been in the offing for some time. The initiative stemmed from the Chase Manhattan group and Lazard Frères of New York. Their negotiations with the Persian Government became bogged down; meanwhile two British banks, the Chartered Bank and the British Bank of the Middle East, moved into partnership with Persian interests in conformity with the requirement that banks must be majority-owned within the country.

The New York bankers apparently decided that their own project, which is for a fund to extend medium-term credit for the purchase of capital equipment rather than a deposit bank, would stand a better chance with a more international flavor. This it now has. Three-fifths of the capital of the development bank is to be owned by the Persian Government. Of the remainder, equivalent to about $2 million, the Chase and Lazard Frères will hold one-third, and groups in Britain and five Continental countries will each hold one-tenth.

Among the British participants are the Midland Bank, Lloyds Bank, and Lazard Brothers & Co. Participation in financing of this sort is not unusual for English Clearing Banks; but the amounts involved are small -- the whole British subscription to the capital will be $200,000-$250,000 -- and they can be regarded primarily as tokens of good will. The World Bank is to do its part by contributing loan capital.

INDIA

The gold smuggling circuit
The Economist, London, May 9, 1959, page 552

The Reserve Bank of India has begun to issue special rupee notes for circulation outside India. It is doing so in an attempt to check the unauthorized import of gold into India, which has recently been costing the exiguous Indian official reserves between $84 million and $112 million a year. Most of the clandestine gold reaches India from the sheikdoms of the Persian Gulf, mainly from Kuwait, and makes its unauthorized way to India by various means, including dhows and planes. The costs of this smuggling traffic, including occasional discovery and sequestration, are considerable; they can be met out of a lush profit margin since gold has recently been quoted in the Indian markets at nearly double the world price.

The Gulf territories have long used Indian rupees as part of their mixed currency. They began to do so when the rupee was a full weight silver coin which circulated side by side with the Maria Theresa dollar, the Arabian rial and golden sovereign. The use of Indian currency persisted after the rupee became a token coin and even when it took the form of paper currency. And the rupee circulation in the Gulf States has provided one of the main links in the chain of gold smuggling operations with India. The merchant in Kuwait begins a series of operations with sterling, which he converts into dollars, with which he buys gold, usually in Beirut. The gold is then smuggled into India and paid for in rupee notes smuggled out of India to Kuwait. Here they have been put in circulation and ultimately collected by one of the banks which, by official arrangement, could ship them back to India for payment in sterling, thus completing the circle of operations.

By making a special issue of external rupee notes to circulate outside, the Indian authorities hope to break this circuit. Since domestic rupee notes will no longer be accepted for encashment by the Reserve Bank of India if they are brought in from abroad, other methods of payment for gold smuggled into India will have to be devised. Ingenuity in finding these other means will be stimulated by the further rise in the Indian price of gold that is almost certain to follow the check to gold smuggling now being administered. One other consequence of India's initiative may be to hasten the creation of a domestic currency in the Persian Gulf States.

VIET NAM

National Budget for 1959
Far Eastern Economic Review, Hong Kong, March 19, 1959, page 386

Estimates of Viet Nam's Budget for 1959, balanced at 14,994 million piasters ($427 million), show an increase of 861 million piasters (or 6.1 per cent) as compared with 1958. The main objective of the Viet Namese Government in drawing up this Budget has been to curb, as much as possible, executive expenses in order to give priority to national rehabilitation, economic development, and social reforms.

Estimates for national defense remain the same as last year, namely, 6,042 million piasters, or more than 40 per cent of total expenditure. Allocations for national education will be raised from 364 million in 1958 to 510 million piasters. Estimates of expenditures for public health, employment, and social security show an increase of 38.8 per cent over the previous year. Expenditure for public works, communications, and rehabilitation is estimated at somewhat less than in 1958, namely 1,144 million piasters. Amounts allocated for Home Affairs show an increase from 641.6 million piasters in 1958 to 1,958 million for the current year. General administrative expenses show a sharp drop from 1,870 million piasters in 1958 to 721 million for 1959, owing to the fact that the civilian guard, formerly included in expenses for the presidency, has been put under the Home Affairs Department.

The increase in revenue for the year 1959 is expected to come mainly from fiscal receipts. This does not mean that taxes will be raised, but owing to improvements in tax collection, it is expected that the returns will be larger this year. Direct taxes are expected to yield 769 million piasters, a rise of 60 million as compared with 1958. Income tax alone will bring in 50 million piasters. Indirect taxes are estimated at 3,038 million piasters, an increase of 69 million as compared with last year. Income from customs and excise duties will amount to 3,853 million, and other income is budgeted at 1,158 million piasters.

The exact amount of American aid for 1959 is not yet known; it has provisionally been estimated at the same amount as in 1958, namely 5,051 million piasters, which represents only the American contribution to national defense.

VENEZUELA

Finance - Reserves substantial
Bank of London & South America, London, Fortnightly Review, April 11, 1959, p. 356

The Venezuelan Press recently reported that the ninth issue of bonds of Centro Simon Bolívar, placed on the market early in January, had had a most satisfactory acceptance by local and foreign investors. Commenting on this, and on some unfounded rumors concerning a possible devaluation of the bolívar, Dr. Alfonso Espinoza, the President of the Banco Central de Venezuela, expressed an opinion that there were no reasons whatsoever for the establishment of foreign exchange control nor for the devaluation of the bolívar. He indicated that the country's financial reserves were very substantial, that the currency was sound, and that the economic prospects for Venezuela were entirely favorable.

Dr. Espinoza's statement was supported by the fact that the Centro Simón Bolívar bonds were all sold at par, a strong indication that both local and foreign investors are quite confident in Venezuela's financial position. The bonds, with a nominal value of 100 bolívares, pay interest at 7 per cent, exempt from income tax. Furthermore, they are accepted for payments to the Government at par value, even if the current market price should be lower.

Venezuelan Budget for 1959-60
The Financial Times, London, May 14, 1959, page 5 - From Caracas

The Venezuelan Budget for 1959-60 will come to 6,134.3 million bolívares ($1,840 million), when approved by Congress in the near future. This compares with a Budget of 5,818.4 million bolívares for fiscal 1958-59. The Venezuelan fiscal year begins on July 1. Señor José Antonio Mayobre, the Minister of Finance, told the Chamber of Deputies that 1,065 million bolívares of the Budget would be financed through public credits, the remainder through normal State income. Among the items, for which public credit would be used, were: the mechanization of the State-owned salt works; an investment plan for the Ministry of Development; special public works including railroad development; air traffic control and telecommunications; and a production program for the State-owned petro-chemical industry.

Venezuela will close its fiscal year on June 30 with neither an internal nor external public debt, according to the Minister. He also stated that the Government would not need to resort to credits other than those mentioned for the coming fiscal year. He expected increased taxes and an improved tax collection system to pay for the Budget and predicted a minor national debt at the end of the 1959-60 fiscal year, if any at all.

CANADA

Chartered Banks restrain expanding credit
The Financial Post, Toronto, May 16, 1959, page 9

"It's going to be tougher to get money this year than it was at the worst of the 1956-57 squeeze, as far as I can see." This was the comment of one senior businessman, who had just been refused a multi-million-dollar loan by his bank. And he asked: "Who's behind it . . . the Government or the Bank of Canada?"

But this time neither the Government nor the Bank of Canada are responsible. At least, not directly. All the Bank of Canada has done is to refuse to expand the money supply. And that policy has been in effect since last fall. The decision to clamp down on loans to business has been taken by the Chartered Banks themselves. The Governor of the Bank of Canada, Mr. J. E. Coyne, did not suggest it. The bank presidents did not consult him. He took no part in their discussion. He did not even know the details of the Banks' decisions. However, the Chartered Banks' action is believed to show that they share the Government-Bank of Canada view about the strength of the expansionist surge which confronts Canada.

The surge of demand for bank money has been hitting a rapid pace since the end of March (after a more moderate rise in February). It results, it is believed, from a widespread intention of expanding capital plant, equipment, and buildings and evidently it was only the beginning of it. Again the Chartered Banks seem to agree with Ottawa's view on this. Hence the Banks evidently decided to check the

expansion of credit before it becomes unmanageable. From Ottawa's point of view, this means checking it before it becomes too highly inflationary.

When the demand for bank loans started to recover this year, reaching tidal proportions these last two months, the Chartered Banks had extra-large holdings of Government bonds. By selling them and using the proceeds for general loans (including new plans for personal lending), they could meet the loan demand up to a certain point. This, of course, generally meant selling at a loss, reducing bond prices and increasing yields. But the Bank of Canada, presumably with Finance Minister Fleming behind it, refused to be panicked by falling prices and rising yields.

At the lowest point of the so-called "money squeeze" in 1956 and 1957, the Banks' holdings of Federal Government securities fell to an average of 15.7 per cent of bank deposits. That was in August 1957 and, this being again an average, some Banks must have been even lower. Today the average of all the Chartered Banks' holdings of Government bonds works out at 19.3 per cent of their deposits. This looks like a "cushion" over the 1957 low point, but it is a soft cushion. Experience shows that, even if committed "lines of credit" are cut back, it takes some time for a "clamp down" like the present action of the Chartered Banks to get a real grip. By the time total loans have been stabilized and a halt has been put to bank selling of Government bonds, the Banks' ratio of bonds to deposits may not be much above the 1957 low point.

SHORT NOTES ON CURRENT ARTICLES

Economic outlook for Ceylon

The Statist, London, April 18, 1959, pages 595-596 and April 25, page 633. These two articles give a brief review of the country's economic position. Agricultural products -- tea, rubber, coconuts, and rice -- account for over 60 per cent of total national output and for about 90 per cent of exports. Living standards are low; average per capita income in a good year is around $126. The Government's Development Plan, launched in 1955, allocated 77 per cent of its funds for economic projects. Plans are under way to rehabilitate the rubber and coconut plantations, open up new land by irrigation, and improve subsistence husbandry. There is a paucity of productive investment. State ventures have not been too successful in the commercial field and it is only a year ago that the Government provided incentives for the private investor. However, ". . . given freedom from industrial strife, reconciliation between the indigenous Sinhalese and Tamil communities, fair treatment to other Indian nationals manning the local plantation industries and running commercial enterprises, and a firm decision on whether the tea and rubber estates are to be nationalized and, if so, when and on what terms, the economic prospects of this . . . fertile island are set fair."

Economic development in Israel

The Financial Times, London, May 14, 1959, pages 6-9. The Financial Times devotes four pages to articles on the economic situation and problems of Israel. One of them describes the determined effort of the authorities to fight inflationary trends. Another points to the gap between industrial expansion and available credits and to the role of private capital in the expansion program. Plans for widening the scope of the country's trading areas to include Asian and African territories are discussed in another article, and still another deals with the high cost of settling new immigrants in Israel.

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UNITED STATES

Flow of gold out of U.S. can do nothing but good - By Michael Barkway
The Financial Post, Toronto, May 16, 1959, page 3

The flow of gold out of the United States in recent weeks has been taken with unruffled calm in Canadian official circles. Talk about a "run on the dollar" or a threat to the stability of the U.S. currency is considered completely unjustified. Even wilder is the idea that a temporary shift of foreign holdings from dollars to gold is going to bring any nearer the gold miners' ideal of a new gold price. The only possible danger, as things appear, is in precisely the opposite direction.

The sale of gold by the United States should be regarded, it is said, as part of a most desirable and highly necessary adjustment. It can do nothing but good -- unless it drives some of the more volatile Congressmen into a wholly unjustified state of alarm. If U.S. perspectives should get so distorted as to panic about these necessary and salutary movements, then the last thing likely to be done is to accentuate them by raising the gold price. At least three undesirable things are more likely: Congressional fear might revive a protectionist mood and a disastrous attempt to swell the U.S. trade surplus back to its former unhealthy size. Congressional shortsightedness might lead to further reduction in aid, or even a demand

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that, for military and political reasons, other countries should supply whatever the United States is withdrawing. The Eisenhower Administration might interpret a reduction in foreign dollar holdings as a sign of lack of confidence to be cured by yet stricter, deflationary policies.

This would involve comparative interest rates. The effect would be to raise United States interest rates higher, thus perhaps attracting short-term capital back from Europe. What in effect has been happening over the last year is that the wide gap between high European rates and low North American rates has been narrowing. Now New York rates are tending upwards as United Kingdom and European rates come down. This will tend to offset the outflow of short-term funds from the United States to anywhere that offered higher yields.

The most diligent searchers-under-beds have been unable to suggest any sinister Russian influence behind the recent gold movements. They are considered too natural and healthy to do the Russians any good anyway. The impact on the London market, where free gold rose in price after a long stable period near the official $35 an ounce, was exaggerated because of an erroneous New York report, putting the outflow at $179 million in two weeks. Actually, it was $100 million in the first of those weeks and $1 million in the second. The third week brought an outflow of $74 million -- making a total for three weeks of $175 million. This meant an average weekly outflow of $58 million, which is substantially different from $90 million, and is far below the average outflow for the whole of the second quarter last year. Between April and June 1958, the United States lost $1,075 million, a weekly average of $83 million.

There are also several special factors this year which were not present last year. The biggest is the increase in International Monetary Fund quotas, which have to be paid one-quarter in gold. The 50 per cent increase accepted by all members of the Fund means an extra $800 million in gold, apart from the U.S. share; and there is another gold payment of between $130 and $140 million to come from Canada, West Germany, and Japan, on account of special increases in their quotas. In all, therefore, almost $950 million in gold has to be accumulated by countries outside the United States. It may be that some of the central banks are already preparing for this by holding more of their reserves in gold and less in dollars.

Everywhere outside the United States currency reserves are counted in "gold and U.S. dollars," and governments can suit their own convenience about which they hold. Normally, U.S. Government securities have some edge over gold, because they earn interest; but some countries such as the United Kingdom traditionally prefer gold. Until near the end of March, the United Kingdom may have been keeping the additions to its reserves in dollars or U.S. Government short-term securities. It certainly accumulated 200 million in dollars to repay to the IMF in March. Once that was done, both traditional policy and the forthcoming gold payment to the IMF would have put the increase in U.K. reserves back into gold.

The only thing that matters for healthy world conditions, it is felt in Canada, is the over-all balance of the United States with other countries. And that cannot be judged til the whole picture is seen in the full balance of payments reports. All that is known so far, even about the first quarter of 1959, is that the size of the U.S. trade surplus is very much lower than usual. Imports, at $3,575 million (unadjusted), are $450 million higher than last year. Exports, at $3,840 million,

are $230 million lower. The U.S. surplus is only $270 million, compared with $950 million last year. This, of course, means that other countries are earning dollars. The imbalance which has bedeviled most efforts at international economic stability since the war is not as bad as it was.

This is the situation which the world has been longing for ever since 1945. It really does not matter whether other countries collect their surpluses in dollar balances, or U.S. Government securities, or whether they choose to put them in gold. The only important thing is that, in spite of a continued surplus on commodity trade, the over-all U.S. position is more like a creditor's -- to the advantage of everybody.

GREAT BRITAIN

Capital questions
The Economist, London, May 16, 1959, pages 647-648

Public anxiety that British industry is being sold out to Wall Street is nothing new. In the late twenties, when American investors developed an interest in European securities that they were to regret for many years afterwards, a number of important British firms restricted foreign residents from holding their shares. Today, American capital is once more being attracted to Europe, on seemingly more solid considerations than a generation ago. And a mild financial xenophobia is being whipped up again; British financiers are bad enough, but American money is surely beyond the pale.

The economic issues in these "buying in" or "take-over" situations rarely get a look in. The fact that an increasing flow of American capital, apart from benefiting particular industries, has done much and could do more to ease the strain on Britain's external payments since the war is pretty well ignored by those who criticize it. The question raised by the recent acceleration of American investment in Britain is not how it should be checked but what new horizons it can open up for us.

The Government's stand against agitation by a strange combination of Labor MP's and some City interests has so far been commendable. Here the economic issues have carried the day. But the economic issues should not invariably be treated as paramount. Suppose a transatlantic bid was made, say, for the British Motor Corporation. Should that secure official approval, given the question of prestige (not itself unimportant) and the possibly damaging effects on British car exports and research? On past experience, American-controlled firms export at least as much as British firms and probably draw on better research facilities. But the research is usually done in America, and although this may not be so important in the established light industries, it would be a different matter if American capital were to take over a big proportion of such new fields as electronics and nuclear power. Again, the effect of American control in British industry upon future export performance might become very different if control extended to major units in certain industries; but without believing in the unlimited application of laisser-faire, one can argue that so far American investment in British industry attracted by the pull of the market is more likely to be desirable than not.

That, broadly, seems to be the attitude of the Government, which actively welcomes the establishment of new enterprises by American firms and keeps a

discriminating eye on take-overs. Britain has succeeded in attracting a very large share of American direct investment in Europe. The European Common Market may already be making it more difficult for this country to maintain its attraction -- but as a trading and manufacturing location Britain retains some advantages, and for some industries preferential access to markets in the Commonwealth and Sterling Area is still important. Official attitudes to portfolio investment by non-residents are rather more lukewarm; the buying of existing shares by Americans on the London market injects no new technique into British industry and creates no new employment opportunities; officials also tend to be obsessed by the fear of sudden withdrawal. Yet capital inflows of this nature ought to be equally welcome.

In recent years, Britain has undertaken overseas investment of around £ 200 million a year by private firms and individuals. These private exports of capital could not easily be cut down; they consist largely of the ploughing back of overseas earnings, and the great bulk of the investment is in the overseas Sterling Area (with Canada as the main exception), free of all official restrictions. In addition, the Government has to pay off the postwar North American loans, and last summer it took on new obligations to lend to the Commonwealth. Finally, Britain has always to be prepared to meet drawings on the accumulated sterling balances. All these heavy commitments on capital account call for a substantial surplus of current earnings to prevent a strain on sterling. But the capital burdens are not a kind of deadweight; they help the export trade, and they build up future assets, or reduce liabilities. Foreign capital thus reduces the net export of capital without disturbing the established flow of investment overseas.

Two questions of policy therefore arise. What steps can be taken to encourage more foreign investment? And would more capital coming in make it easier for British residents to move their capital around the world? The Government may feel that it can do little specifically to attract more foreign capital, since it has virtually no barriers to take down. The one important discouragement to the foreigner -- apart from high taxation -- is that he has no automatic right to repatriate his capital through the official market. At present the rate for security sterling in the unofficial market is very close to the official rate for external sterling. But foreign investors cannot count on this and Treasury Ministers have made it clear that the merging of security sterling with external sterling does not stand high in present policy. Other things come first -- including greater freedom of current payments, particularly for dollar imports. It is difficult to quarrel with that order of priorities.

One form of external disinvestment gives no such hostages to the future, and that is borrowing abroad by British firms or institutions. The authorities do seem to have undergone a change of attitude on this matter since the end of the credit squeeze at home; one sign of this was the recent Swiss issue by British Petroleum, and another was that the Government would have permitted the London County Council to borrow its £ 25 million abroad rather than in London. The LCC felt unable to accept the exchange risk, as would most organizations that do not earn an income abroad. But those who can go overseas when credit conditions are propitious should be free to do so.

Can British residents be permitted to invest freely abroad, rather than being confined to the existing book of foreign securities in London or having to run the gauntlet of exchange control for projects of direct investment outside the Sterling Area? One increasing pressure in this direction may be exerted from Europe. The

six countries of the Common Market have been quick to organize cooperation between banks and stock exchanges; the capital markets of the Continent will undoubtedly draw closer together. Many people in the City feel that Britain should not be left out. But the authorities probably see two basic difficulties. The first is that a general freeing on capital account, affecting either British residents or foreign residents, could not be limited to transactions with Europe alone; an open door here would quickly open routes to the dollar area. Secondly, even if interest rates in London were kept high in relation to leading Continental centers, London's more organized capital market would inevitably promote a net outflow of funds.

For these reasons, even a government with ideas of economic freedom close to its heart is likely to decide that export of capital must remain controlled, even though more applications can be let through. The considerations would presumably be transformed if the relations of the dollar and European economies were to undergo a permanent change -- so that in the years ahead the net pull of market and political forces moved capital from America to Europe and not the other way. Time is needed to show whether the recent eastward movement across the Atlantic is a change in the long-term trend. Even if the inflow of American and other capital to Britain should reach substantial proportions, the central exchange reserves must have their full share; they are still below the level that would give British economic policy effective freedom of manoeuver. But the underlying approach to international movements of capital should always be a liberal one, so that more can come in and more can go out.

MALAYA

Syndicate plans purchase of European-owned estates
The Financial Times, London, May 20, 1959, page II

A syndicate from Indonesia and Singapore is planning to buy European-owned estates in Malaya, according to a newspaper report. The syndicate has a subscribed capital of $M 200 million ($66 million) with a provision to raise another $M 200 million. Its formation is described by commercial circles as a move against fragmentation and sub-division of the big foreign estates in Malaya. The concern believed that Malaya was safe for long-term capital investment, the newspaper added. The syndicate which is reported to be registered as a limited company, with a Singapore businessman as managing director, intends to own at least 100,000 acres of planted rubber and oil palm to begin with. A spokesman told the newspaper: "We have decided not to disrupt the working of any of the estates which come into our hands. They will be run as they are at the time of taking over."

SOUTH AFRICA

Deepening recession forecast
The Financial Times, London, May 13, 1959 - From Johannesburg

While no one doubts that the Union will recover its forward impetus -- forecasts as to when vary from "within three months" to "early next year" -- some surprise has been shown by industrial leaders at the Government's attitude towards the recession. Apart from admitting that it exists, and Government spokesmen vary in their interpretation, no measures have been announced yet which might stimulate a revival. There seems every reason to believe that the comments made by the president of the

Federated Chamber of Industries that "conditions have deteriorated and will get worse before they get better" is correct.

The present recession in industry in the Union has to be viewed against the background of South Africa's impressive industrial development since 1939, more particularly since 1947. During that period, with the exception of a slowing down during 1952-54 which was so slight it was noticed only by the statisticians, the Union's industrial story has been one of continued surging expansion. Since 1939 employment in private industry has leaped from 360,000 to almost 1 million, and the value of production from about £ 300 million ($840 million) annually to well over £ 1,000 million. Last year industry was the largest single factor in the national income, with a total contribution exceeding that of mining and commerce combined. By normal standards, the Union has been experiencing over-employment, at least among the whites.

Under these conditions, any setback is viewed with more concern than in older industrial countries which are accustomed to fluctuations in industrial activity, and there may therefore be a tendency to be more alarmed about it than the conditions warrant. A hampering factor in making any assessment of the situation is the lack of up-to-date and accurate statistics coupled with the fact that unemployment among natives is not reflected in official figures. The situation therefore lends itself to a variety of interpretations. But the most cautious comment would be that while the majority of industries are static compared with last year, a considerable number (including the key metal industries, clothing, and textiles) are depressed. The general assessment is that there is a recession but that it falls short of a slump. Unemployment at about 50,000 of all races is up 15,000 on the comparable period of last year. The latest employment figures issued by the Bureau of Census and Statistics show that the total of 692,500 known to be at work in January 1959 was 6,500 (or 0.9 per cent) down on the January 1958 figure. Since then unemployment has increased.

Plan to curb unemployment
The Financial Times, London, May 23, 1959, page 9

Six important measures to be taken by the Government to help combat the serious unemployment position were announced by the Minister of Labor, Senator De Klerk. He told the Assembly: "The picture looks dark." The measures are as follows:

1) State and railway administrations would, wherever possible, buy their requirements in South Africa. This did not mean that the Tender Board regulations would be abandoned entirely, but negotiations would be conducted for direct purchases of goods required where prices were reasonable, taking into account those paid previously and the fluctuations in prices of raw materials. 2) The Government would try to persuade municipalities to adopt the same attitude. 3) The attention of importers would be drawn to the possibility of purchasing their needs, especially capital needs, in South Africa. 4) Hire-purchase regulations for new cars would be altered to make the deposits 33-1/3 per cent and the term of repayment 24 months, instead of 50 per cent and 18 months, as at present. This measure was aimed particularly at helping local assembly plants. 5) The Treasury would relax the control it exercised over spending by municipalities on buildings. 6) If the housing position grew worse, the Treasury would make funds available for the building of houses through the Public Works Department.

SWITZERLAND

Swiss loan policy
The Times, London, May 22, 1959, page 20

The first Swiss loan to be made this year to one of the Common Market countries will be floated in the last week of May. The issue is a 50 million Swiss franc conversion loan of Régie des Télégraphes et des Téléphones of Brussels. The loan, which is guaranteed by the Belgian Government, will carry a 4-1/2 per cent coupon and will be repayable in twelve years.

The approval granted by the Swiss authorities for this issue does not mean that the ban on Common Market issues has been lifted. This loan has been permitted only as an exceptional measure because it is a conversion issue which does not involve the raising of new money. In principle, the Swiss authorities still refuse to give their consent to any loan for a Common Market country so long as these countries maintain their negative attitude towards a multilateral association in Europe. It is, however, no secret that this attitude has recently been resisted by the Swiss banks, which contest the right of the authorities to play off the question of consents to foreign loans against general questions of foreign trade policy.

Since the Swiss capital market has already carried new issues amounting to 500 million Swiss francs ($115.7 million) in the first four months of this year, compared with 270 million francs in the same period of 1958, the foreign loan program for the period before the summer holidays has been curtailed. The last foreign loan of the present series will be an issue on behalf of Telefon AB LM Ericson of Stockholm; this will take place in June. The loans to the Danish Government and the Standard Electric Company will follow in the fall.

JAPAN

Japanese investment abroad
Far Eastern Economic Review, Hong Kong, March 19, 1959, page 381

Japanese investments abroad during the fiscal year 1958-1959 totalled 31,582 million yen ($88 million) which represents a big jump from the 1958 investments of 15,400 million yen (April-December). The Ministry of International Trade and Industry states that Japan will more than double her investments this year so as to intensify economic expansion in South-East Asia. Stress will be placed on areas suffering from a dollar shortage. Of the total investments, 9,115 million yen will go to South-East Asia and 4,804 million yen to Latin America with a view to encouraging these countries to buy Japanese exports.

CHILE

Banking developments
Bank of London & South America, London, Fortnightly Review, April 25, 1959, p. 387

Effective April 1, all quantitative credit restrictions hitherto in force have been removed and banks may advance funds up to their financial capacity within the regulations established in the general banking law. A modification is being introduced into these regulations, however, which will operate when the total money issued by the Banco Central exceeds 114,000 million pesos during the first half of this

year, and 120,000 million pesos during the second half; this will have the effect of controlling bank operations above certain limits by adjusting the proportion of cash reserves against deposits. The banks have been requested to continue to channel advances towards agricultural, industrial, and mining production or towards assisting exports, and to refrain from lending funds for non-productive purposes, such as travel abroad, the purchase of luxury articles, and speculation. Financing the import of luxury goods through any Chilean port is also prohibited.

Banks will continue to furnish the Banco Central with details of new advances. Instructions have been issued prohibiting banks from rediscounting with the Banco Central, except in cases of emergency, when it is proposed that future rediscount rates will make this practice unprofitable. Outstanding rediscounts are to be liquidated and banks are allowed to use the balances of prior import deposits in pesos lodged with the Banco Central for the cancellation or reduction of their pending rediscounts. Rediscounts outstanding at the end of February were 12,335 million pesos for the commercial banks and 7,844 million for the Banco del Estado, to which the new measures also apply. The Government has explained that its object is to apply to banks the same policy that it has imposed on itself, namely, not to finance cash deficits by means of currency issues by the Banco Central.

SHORT NOTES ON CURRENT ARTICLES

What economic policy from Labor? - By Anthony Crosland, M.P.

The Banker, London, May 1959, pages 295-303. "One of the best informed of the Party's younger intellectuals" in this article reviews the Labor Party's economic policy, stating that the primary aim of a Labor Government would be to achieve and sustain a rapid rate of economic growth. He reproves the Tory Government for allowing Britain to lag behind more progressive industrial countries in economic expansion. He explains how the Labor Party would deal with the various problems which might arise in the pursuit of its stated policy, referring specifically to excessive imports, threats to sterling, fiscal and monetary regulators, interest rates and credit rationing, physical controls, and wages and productivity.

Australia - A Financial Times Survey

The Financial Times, London, April 27, 1959, Special Supplement, 112 pages. There are 49 articles in this Survey which deal with every phase of the Australian economy and which discuss some of the political and social problems of that Continent as well. The articles were written by high Government Officials and by experts in the various fields. The Survey tells of the young country's rapid growth and development, of past achievements, and of future plans. The Governor of the Commonwealth Bank of Australia, Dr. H. C. Coombs, has contributed an article entitled "Flexible Banking Policy an Essential" in which he emphasizes that the country's growth has been facilitated by a continuing inflow of capital from abroad and points out that the banking system's "flexible and moderate policies" have made this inflow possible and have thereby played an important role in Australia's economic expansion.

ERRATUM

The Editor regrets that there was an error in the Weekly Review of Periodicals for May 29, 1959, page 4 - Belgium. The last sentence should read "The conjuncture is a rare one in the modern world . . ." instead of conjecture.

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WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Should equities yield less than gilts? - By Sir Roy Harrod
The Financial Times, London, May 22, 1959, page 10

The attainment by The Financial Times index of industrial shares of an all-time peak may be an appropriate occasion for reflection on what the normal yield (of dividends on prices) on such securities should be. For generations it has been assumed that it should be above that on gilt-edged stock to allow for risk. Great changes in the relevant circumstances have, however, occurred both before and after the last war; these are sufficiently familiar, but the mind sometimes boggles at drawing conclusions from familiar facts, if the former contravene time-honored maxims.

There is indeed some risk attaching even to the best established Ordinary shares; but they also contain an "equity" element. It is not a **priori** obvious that the risk element is sufficient to outweigh the equity element. According to general principles, the relative yields should depend on the supply and demand of each type of asset. What cannot be disputed is that a vast change in the relative position of Ordinary shares and gilt-edged stock has occurred, both on the side of the demand for securities and on that of the supply of them. It is not necessary to expatiate on the fact of the increased demand for equities nor on the reasons for it. That the reasons are not confined to, or even predominantly connected with, the desire for a "hedge against inflation" -- which may well be terminated by the coming to an end of the postwar inflationary period -- is evidenced by the fact that the trek into equities was already gathering momentum in the predominantly deflationary period of 1920-38.

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The diminished preference for gilt-edged has been shown by a wide range of institutions, from the insurance companies, through the pension funds and Church commission, down to comparatively humble investors such as universities and endowed schools. I do not think that this great surge of opinion is likely to collapse in the years immediately ahead, even if inflation proves as dead as a doornail. The same phenomenon is marked in the United States.

In Britain the supply side should be strongly stressed. Before 1945 the British Government was not normally a net borrower in peacetime. Sinking funds were not always fully implemented, but they existed, and caused some yearly reduction in the outstanding corpus of gilt-edged stock, even if only a microscopic one. Now the Government is obliged to be a large net borrower each year. Let it not be supposed that ideally this should be remedied by the Government covering all its "below-the-line" items by taxation. There should be -- I am not saying that there are -- purists in the Treasury who might take this for an ideal. That would be radically erroneous. The ideal in this connection is that the Chancellor should seek to cover the below-the-line items -- as Cripps, Butler, and Macmillan rightly did in their day -- only to the extent that it is needful so to do, in order to compress the total national demand for goods and services within the limits of the supply potential of the economy.

To cover such below-the-line items by taxation in circumstances when there was no fight against inflation on, would by no means be ideal; on the contrary, it would be a wicked thing to do. We have no reason to suppose that it will be needful to do this in most years in the period ahead. Thus there is a pincer movement upon the unfortunate gilt-edged stock. The demand for it, as against equities, has unquestionably fallen, and the supply of it is being continually inflated. And there are no prospects of a reversal of either of these changes. Even if there were no propensity to switch from gilt-edged into equities (and other types of capital asset), one would expect the yields of other securities to fall relatively to that of gilt-edged, owing to the supply position alone; the supply of gilt-edged stock, instead of being static, is constantly increasing, while the supply of other securities is increasing less quickly than it would if the "public sector" had not been expanded.

May it accordingly be the case that, for equilibrium to be established, the yield on equities should reverse its time-honored position and come below the gilt-edged yield? I refer, not to the bluest of blue chips, but to respectable shares generally, such as those included in The Financial Times index. There may be a kind of sound barrier constituted by the opinion held by many generations of investors, through which we now have to break.

In my judgment the yield on British gilt-edged is at an unhealthily high level, and this is doubtless due principally to the quantity of money (bank deposits) in circulation being held at an abnormally low level. But it may also be that the gilt-edged is being kept up by the attraction of the higher yield on equities, while the latter is sustained -- on average -- by the time-honored opinion about its proper relativity to gilt-edged. If the sound barrier were crossed on a really widespread scale, it is possible that both classes of yield would slowly proceed together downwards -- the equities leading -- to much lower levels.

There is what I may venture to call an Establishment opinion that a relatively high interest rate will be needful in the near future. I believe that this lacks

any foundation of good reasoning. Fingers are pointed to the putative investment needs of development countries. But the investment requirements of the mature countries have much more weight in the world scene. Who will say that the investment requirements of the United States or Britain are running at an abnormally high level in relation to potential savings? And the pattern does not seem very different in the mature Continental countries.

As for the development countries, the urgency of whose needs is not denied, these would be ill-advised and probably unwilling to borrow on a great scale from the mature countries at high interest rates. If the balance between investment requirements and savings points to rather low rates in the mature countries, it would be topsy-turvy to sustain them at unnaturally high levels, simply in order to stave off putative requirements by development countries.

In Britain we have the extreme paradox of what are, by historic standards, abnormally high interest rates -- the only purpose of which ought to be to curb domestic investment -- being sustained artificially by monetary policy, while at the same time subsidies ("investment allowances") are given at the expense of the taxpayer to encourage that same investment. Hopes are expressed by some that we may soon be able to allow the free export of portfolio capital (sometimes called "resident convertibility"); I am beginning to share that hope. But we should make it an absolute rule not to allow that, until after we have tried out the experiment of having interest rates at home at a more normal level.

I would venture to suggest -- since it is always healthy to relate an abstract argument to particular figures for illustration -- that we ought to see the yield of Consols coming down to a maximum of 3-1/2 per cent. But it may be impossible to achieve this, unless the sound barrier is crossed and the average yield of sound equities is established, say, at 3 per cent.

This is for the markets to decide. All that the authorities have to do now is to bring up the quantity of money (bank deposits) towards a more normal level -- while sustaining short-term interest rates, if they judge that needful -- and see how the situation develops.

Dollar imports to be freed
The Financial Times, London, May 28, 1959, pages 1 and 10
The Times, London, May 29, 1959, page 19

Britain is about to remove most of the remaining restrictions on imports from the dollar area. It is expected that the Government will make an announcement to this effect very soon. Final details of the plan are not yet available, but it is thought that dollar imports will now be broadly treated on the same basis as imports from the so-called relaxation area, in the main member countries of the Organisation for European Economic Cooperation and associated territories. This would mean that a wide range of American consumer goods would be given access to the British market. Certain items which are subject to quantitative restrictions, independent of their origin, will not be freed. /For most commodities, however, the ban will be lifted on June 8./

The decision to free a greater area of dollar imports will be warmly welcomed in the United States. Since sterling convertibility at the end of last year it has been increasingly difficult to justify discrimination of this sort against the dollar area. Moreover, American industrialists have watched with anxiety, and not a little

annoyance, a rising tide of British and European goods entering the American market, while many American goods were still kept out of Britain. It was not by chance that the American Press gave far more prominence than papers in London to the fact that Britain achieved a favorable trade balance with the United States last month for the first time since 1865.

The question that will now be asked is whether the present decision will also be followed by similar complementary policies on the part of the United States. Certainly Britain is preparing to give away a useful bargaining weapon, and there is no certainty that a quid pro quo has been obtained. The woolen textile industry at least would have reason to feel incensed if this is a unilateral action of trade liberalization which the United States does not follow. Nevertheless, the element of bargaining is not the most important one in this matter. We are now running a favorable balance of trade with the United States. In the first four months of this year British exports to the United States amounted to £ 114 million, including £ 29 million for automobiles; in the comparable period of last year the figures were £ 83 million for total exports, including £ 19 million for cars. Although there has been some retreat towards protectionism the American market remains an immensely valuable one in which our sales have been increasing rapidly. If one only assumes that the American market will remain as freely open to us as it is at present that would probably justify the cost of the present move.

It is, of course, difficult to calculate precisely what the cost will be. There may in the first months be some stocking up of products which were not previously available. In so far as American goods replace other foreign goods because they are cheaper, or of higher quality, we shall benefit. To some extent they will represent additional imports, but after the first reaction there should not be any excessive strain on the balance of trade. Some of the quotas which are being enlarged were previously not filled; the effect of liberalization will certainly be damped down by the high level of American prices. The great hope must be that the British example will help to strengthen the cause of trade liberalization in the United States, and indeed in the world as a whole.

AUSTRALIA

Britain's share in the Australian market
The Financial Times, London, May 20, 1959, page 16 - From Melbourne

The announcement that Australia is to consider reducing the preferences granted to Britain on a wide range of goods lends special interest to statistics now available which show the effect on Britain's share in the Australian market of the reduced preferences on capital goods announced two years ago.

The reduction of preferences affected Britain's share only very slightly during 1957. In the second half of that year Australia still imported 63-1/2 per cent of metals, machinery, and electrical equipment from Britain, but by the second half of 1958 Britain's share in these categories had fallen to just under 60 per cent. Certain factors have helped some of Britain's competitors during this period. The relaxation of dollar import controls led to the share of the United States (in metals and machinery) rising from 16-1/2 per cent two years ago to 19 per cent in the latest period for which figures are available. Western Germany's share rose from 5-1/4 per cent to 7-1/4 per cent during the same period, and smaller non-Commonwealth exporters such as France, Sweden, the Netherlands, and Switzerland have all gained appreciably at Britain's expense.

As many textiles are included in the list of goods for which preferences are now to be considered, it is of interest to note the fall in Britain's share in the Australian market for yarns, textiles, and apparel which has been from 41-3/4 per cent in the second half of 1956 to 39 per cent in the same period of 1958. The main factor in this change has been the rise in Japan's share from 6 per cent to 17 per cent, largely as a result of the removal of discrimination against Japan after the treaty of 1957.

JORDAN

Jordan's plight as ward of western charity
The Times, London, May 16, 1959, page 5 - From Amman

The British Government's announcement that it is again deferring payment of Jordan's debts, to the amount of £ 766,000 this year, is naturally welcome in Jordan, where any contribution must perforce be gratefully accepted. It is the second time since the termination of the Anglo-Jordan treaty in 1957 that Britain has made a gesture of this kind, and out of a total of about £ 5,500,000 due to her under the treaty settlement, £ 3 million has still to be paid. This outstanding sum was to have been paid at the rate of £ 500,000 a year for six years, and as provision for the annual payment was made in the Budget for 1959-60 its deferment now means, in effect, that Jordan saves £ 500,000 on her budgeted expenses this year. A further amount of £ 266,000, also to be deferred, which was to have been paid by Jordan this year as part of her refund of past development loans, was not included in the Budget.

Since 1949 the British Government has advanced over £ 8,500,000 to Jordan in the form of these development loans, of which only £ 133,000 has been repaid so far. Inevitably, these figures draw attention to Jordan's continuing plight as a ward of western charity. Over two-thirds of her revenue comes from British and American aid, and over the past three years the gap between domestic revenue and expenditure has been rapidly widening. Up to 1956, the last full year of the British Government's subsidies to Jordan, it was still possible for the country to survive with budgetary and development subsidies of about £ 12 million a year, most of which went to finance the military forces. The latest Budget, however, calls for expenditures of over £ 38 million, of which only £ 9 million will come from domestic revenue. The remaining £ 29 million will be supplied by United States aid of all kinds, amounting to over $50 million (including direct budgetary support of $40.5 million), and British budgetary support of £ 2 million.

This will leave a Budget deficit of another £ 7.5 million, now reduced by half a million thanks to the new British gesture. As yet, only some hopeful talk about "savings" has been put forward as a means of meeting this deficit, but no one need be surprised if in the fall Jordan once more appeals to the United States or Britain to help her out. That such a huge burden should have been assumed on behalf of only 1-1/2 million people is just one of the more lunatic results of western policy in the Middle East over the past 40 years.

One-third of Jordan's people are the Palestinian refugees, largely destitute and unproductive, and supported at subsistence levels by the United Nations Relief and Works Agency (which again means the United States and Britain in effect) to the tune of £ 3 million a year. The remainder of the population have few natural resources to exploit and most of them have their eyes fixed anxiously on the 400 miles

of frontier with Israel whence, it is their firm conviction, the Israelis will one day swoop down on the west bank of the Jordan river in pursuit of what the Arabs believe to be an implacable policy of territorial expansion.

To protect this frontier and to look after the Syrian and Iraq flanks as well, the Jordan Army has been doubled in size in the past three years. It is this that eats up the nation's cash, accounting for more than half of the total expenditure this year. There is no prospect whatever of the gap between spending and domestic revenues being substantially reduced, short of a discovery of oil. In fact, until the Middle East acquires a more rational political structure in keeping with economic and geographical facts, Britain and America will have to go on paying in Jordan for what, after all, are largely their own past mistakes. The alternative for Jordan is immediate bankruptcy and chaos.

GREECE

Greece fixes new exchange rate
The Financial Times, London, May 26, 1959, page 1

The Bank of Greece has fixed the exchange rate of the United States dollar at 29.85 drachmae buying and 30.15 drachmae selling, against 29.90-30.00 drachmae previously. The new rate follows the recent announcement of the partial convertibility of the drachma into dollars.

U. S. S. R.

COMECON progress report
The Economist, London, May 16, 1959, pages 639-640

The tenth birthday of the Council of Mutual Economic Aid (COMECON) came very soon after that of NATO. Like NATO, it is a product of the cold war. It was the Soviet reply to the Marshall Plan, formed at a time when Moscow had decided to tighten its grip on eastern and central Europe. The first members of the organization were the European countries of the Soviet block; Asian Communist countries are only associate members.

During the first years of its existence, COMECON made very little progress with the coordination of economic policies and international division of labor that were its official objectives. By 1950, international tension prompted Moscow to impose throughout the block much faster rates of growth in fuel and power, engineering, and arms production. This breakneck pace, determined without due allowance for consumer needs, probably did more damage to member countries than the arbitrary fixing of prices for exchanges with the Soviet Union. Soon after the first blueprints for a greater division of labor had been drawn up, the whole organization was shaken by the events of 1956, and only in the last year or so have efforts at economic coordination been resumed. The drafting of new long-term plans for each country made it possible to elaborate some common programs. Their more interesting features can now be summarized.

Fuel resources are very unevenly divided in the area. Poland, next to the Soviet Union, is the main coal producer. Polish Upper Silesia is also apparently the most profitable place for new capital investments. Czechoslovakia and eastern Germany have offered credits to Poland for setting up new mines. There is already

some cooperation over electric power, and special efforts will now be made to increase electric power exchanges among Poland, Czechoslovakia, and eastern Germany. Plans have also been drawn up for atomic energy. The shortage of oil and natural gas is growing acute in most countries of the block. Only Rumania and Albania can do without Soviet aid. The construction of pipelines linking the countries in the block is among COMECON's major projects.

Steel output in eastern Europe is largely dependent on Soviet supplies of iron ore and these will have to be stepped up considerably if the planned targets are to be reached. Czechoslovakia, for instance, is scheduled to produce about 9.5 million tons of crude steel in 1965 and Poland 9 million tons. Thus, Czechoslovakia will get over 10 million tons of Soviet iron ore in 1965, which is thrice its present volume of imports. As regards other metals, Hungary is to increase its shipments of bauxite, Poland is to supply more zinc, and Bulgaria more copper and lead. China should gain in importance as a source of tungsten, molybdenum, and tin.

Coordination is no longer to be limited chiefly to the exchange of raw materials. There is, for instance, a concerted drive to expand chemical production. In engineering, all member countries have agreed to reduce the different types of machine tools that they produce. In general, each country is being urged to concentrate on those branches of engineering for which it is most suited: Czechoslovakia on various forms of heavy engineering; eastern Germany on precision instruments and electrical equipment; Poland on mining equipment, railway stock, and shipbuilding; Hungary on aluminium plants; Rumania on oil equipment, etc. The Soviet engineering industry will, of course, remain the most diversified.

The existence of all these blueprints does not mean that integration has gone very far in the Communist common market. On the contrary, the combined foreign trade turnover of member countries accounts for only one-tenth of the foreign trade turnover of the world. Indeed, Russian commentators, conscious that previous Soviet bullying tactics have left a bitter taste, now insist that cooperation is more beneficial to other countries than to the Soviet Union, which is fairly self-sufficient. Soviet writers also admit that the organization is not yet very effective. Although it has committees dealing with most branches of economic life, agreements are still reached by individual countries between themselves. Barter deals, backed by bilateral credits, remain the rule. The COMECON has not yet evolved an efficient system of multilateral payments. Nor have the planners solved the problem of how to determine the efficiency of investments between countries with differing price structures, when there is no free flow of resources across national frontiers. As to the prices obtaining in this Communist market, it is argued in the same breath that they both correspond to world prices and avoid world fluctuations through long-term contracts.

This is not COMECON's only ambiguity. It is claimed that increased collaboration should enable the block to increase its exports, particularly its aid to backward countries. But who will determine what proportion of the common resources should be devoted to aid for Communist China or for the underdeveloped countries of Asia and the Middle East? Who will decide the rate of growth or the share of investment in the national incomes or the amount of trade with the capitalist world? Hopes are now pinned on the new method of long-term planning (10-15 years) which should make it easier for individual countries to coordinate their policies.

By its tenth birthday, indeed, COMECON has only taken its first tentative steps. It is not yet what it is supposed to be. Yet it should not be underestimated. In

comparing Soviet economic potential with that of the western powers, it will be increasingly important to take into account the rest of the Communist third of the world. Economic ties have also their political consequences. If the Communist common market should make faster progress towards integration during its second decade, it will be extremely difficult by 1970 to dissociate the countries of eastern and central Europe from their Soviet partner. This factor is overlooked in most controversies about the merits and timing of "disengagement."

INTERNATIONAL COOPERATION

A little free trade area?
The Economist, London, May 23, 1959, page 715

The idea of a little free trade area between Britain and the Scandinavian countries, and possibly Austria, Portugal, and Switzerland is now being bruited about in London with surprising vigor. The scheme has had an airing in the press; the Federation of British Industries has been asked for support. No Cabinet decision has yet been taken on the matter, but the scheme has now gathered sufficient way to deserve serious consideration.

The little free trade area plainly does not compare in economic value with a grouping embracing all western Europe, and is not a substitute for it. The new competition, the opportunities for a better international division of labor, and the stimuli to more productive investment would be incomparably smaller. But those who put forward the scheme seem in part to appreciate its limitations. Few of them see it as a permanent arrangement. They simply hope to give the countries outside the Common Market a certain compensation for the losses they are suffering from its creation, and at the same time to provide an additional spur towards the broader agreement that must remain the overriding objective of British policy.

It is here, however, that the conception of the little free trade area seems somewhat confused. If such a scheme is to contribute towards a broader agreement in Europe, it will do so by exerting pressure on the six Common Market countries to accept one. The pressure would be mainly felt by German exporters in Scandinavian markets, who would then presumably put further pressure on the French. But all the evidence of the negotiations hitherto suggests that this pressure is unlikely to be effective. The political necessity which compels Germany to maintain its links with France sets a very clear limit on the effectiveness of German pressure. The French remain in a position to block any schemes which do not fit in with the Common Market system.

By itself, the fact that the little free trade area will not bring agreement with the Six any nearer is no argument against it; any freeing of trade is, in itself, good. But the danger is that it may push the day of agreement with the Six further away. The creation of a second economic grouping, however tactfully it is framed, runs the risk, as things are, of deepening and completing the division within Europe, so apparent since the Common Market itself was formed. It would be one more misfortune for British policy if another well-intentioned economic scheme were to contribute to the lasting political estrangement which has been possible ever since the project for a wider free trade area failed.

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June 19, 1959

WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Any old gilts? - A reply to Sir Roy Harrod - By Harold Wincott
The Financial Times, London, May 26, 1959, page 8

I read with fascination Sir Roy Harrod's article in The Financial Times of May 22, and would like to discuss in particular Sir Roy's proposition "that we ought to see the yield on Consols coming down to a maximum of 3-1/2 per cent," which, however, may not be achieved "unless . . . the average yield of sound equities is established, say, at 3 per cent." This reminds me of the old Chinese proverb: If we had some ham (3-1/2 per cent Consols), we could have ham and eggs -- if we had some eggs (3 per cent yield on equities).

Sir Roy spent at least half his time explaining why people don't want fixed interest securities (to yield today, say, between 5 and 7 per cent). I don't need to repeat to the reader the reasons Sir Roy advanced for this state of affairs -- the search for inflation hedges, the upsetting of prewar supply and demand relationships between fixed interest stocks and equities, and the spread of the Keynesian philosophy -- for the reader has been basing his investment decisions on them for

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years. The point is that Sir Roy sees no prospect of the second and third of these factors at least disappearing. In other words, he sees no prospect of any increase in investor enthusiasm for fixed interest stocks. Yet, in his judgment, "the yield on British gilt-edged is at an unhealthily high level." So "the authorities" (anglice, the Government) should "bring up the quantity of money (bank deposits) towards a more normal level" (anglice, should revert to the printing press).

This seems to me to be a most extraordinary proposition. Investors run away from gilt-edged because of (a) inflation and (b) the excessive supply of such stocks, so let's have more inflation (implicitly) and an even more excessive supply of what people don't want, and hey presto! down will come the rate of interest to 3-1/2 per cent. In fact, of course, there is nothing new in the basic proposition, which is simply that the Government should monetize so much of its debt as is necessary to attain the required yield basis. After all, this was precisely the basis of Mr. Dalton's cheap money campaign. After all, since then, we have had the evidence of Mr. Jaques Rueff (in the April issue of Lloyds Bank Review) that it was a similar policy which brought France to disguised bankruptcy and, more than incidentally, uncomfortably close to a dictatorship.

We know that we in Britain are reckoning on an over-all deficit in the Budget of £ 721 million in the current year. We can be reasonably sure that this will require the creation of quite a lot of fresh inflationary credit; we can be reasonably sure, if only because the inflationists, in discussing the possibility, always finish up by saying: "Well, if necessary, we can introduce Mr. Cobbold's new deposit system to sterilize any undue inflationary pressures through the banking system." Are we on top of this cheerfully to create still more hundreds of millions of inflationary credit to put the Treasury in funds so that it can rig the gilt-edged market à la Dalton?

I will not discuss the morals of the proposition, except to say two things. First that if any board of directors followed the analagous process of borrowing money to enable their company to buy its own Ordinary shares and thus rig the market in them, that board would go to prison, and quite right too. Secondly, is Sir Roy aware of the very real misery that the last deliberate attempt to do what he now advocates caused among the decent, ordinary, unsophisticated people who were unfortunate enough to be beguiled by the irresponsible Mr. Dalton into buying gilt-edged on an artificial and uneconomic interest rate?

This misery, this disillusionment with gilt-edged does have, however, quite apart from its ethical aspects, a distinctly practical relevance in the context of Sir Roy's suggestion. Perhaps you recall the recent article by Professor Frank Paish in The Banker (January 1959) entitled "Gilt-edged and the Monetary Supply." Professor Paish wrote "it looks very much as if any attempt in the near future to shift the liquidity preference schedule downwards by persuading people that lower long-term rates of interest are likely to come and remain will encounter considerable psychological resistance from the investing public."

I'll say it will. I happen to have some comprehension of the number of investors, both institutional and personal, who are simply aching to get their percentage of equities up and their percentage of fixed interest stocks down. The usual drill, however, to reach this objective, is to devote all or an abnormally high proportion of new money to equities, and not to sell existing fixed interest stocks and switch

the proceeds. Why? Simply because of the substantial losses on book cost of existing fixed interest stocks. Sir Roy proposes to remove that disability. He says in effect: "Don't be impatient, boys. If the Government follows my advice, you'll get baled out of your fixed interest holdings on a rising market. If necessary, the Government itself will buy them from you. I can promise you a 100 per cent equity portfolio with virtually not a book loss on your unwanted fixed interest stocks."

Professor Paish estimated that to achieve a reduction of one-half of one per cent in the yield on Consols, the Government would have to boost bank deposits in 12 months by a minimum of £ 500 million and possibly by a maximum of £ 1,100 million. But Sir Roy wants none of Professor Paish's measly one-half of one per cent reduction in the yield of Consols. Oh dear, no. He wants a fall nearly three times as great. Let us assume for a moment, however, that the Government could force down the yield on Consols to 3-1/2 per cent and that the average yield on sound equities fell to 3 per cent. Has Sir Roy any idea of what the effects would be in terms of capital appreciation in quoted securities on the London Stock Exchange alone? In the simplest terms, assuming unchanged dividends, The Financial Times index would stand at 400!

There was, according to official statistics of the Stock Exchange on June 30, 1958, quoted fixed interest capital with a total market value of £ 18,169 million. The interest and dividends on this in the previous year amounted to £ 705 million, so that we can calculate that the average yield was 4.21 per cent. The absolute level of yield does not matter. What does matter is that a fall of 1 per cent in the return (which is conservative by Sir Roy's standards) would add something like £ 5,660 million to market values. The total market value of equities on June 30, 1958, was £ 9,551 million, and dividends paid on it in the previous year were £ 603 million, so that the average yield was around 6.4 per cent. Again, the actual return does not matter. What matters is that if the average fell by 1 per cent, there would be another £ 1,750 million of capital appreciation. Of course, investors could not or would not want to liquefy all this accretion. But we must ask ourselves what the effect would be on investors' propensity to spend, on the trade union attitude to wage restraint, on the cost of living, on our balance of payments, and finally on sterling, of bringing into existence this extra £ 7,400 million of capital values, plus further enormous sums from unquoted assets.

One final thought on this intriguing subject. It brings us back to our starting point -- the yield gap. What I have envisaged in my writing elsewhere on this question is the possibility that the gap will disappear mainly through a rise in the Ordinary share index; that is to say, without any material alteration in the present long-term interest rate structure. I base my optimism for equities over the short-term on my belief that there will be no balance of payments crisis before the general election.

But, if I am right in my thinking that the abolition of the yield gap in the sense and manner in which Sir Roy foresees it happening would itself cause a balance of payments crisis, then it follows that the gap can almost certainly never be closed on Sir Roy's terms, since the Government -- any government -- would be forced once again to take deflationary steps which, on every precedent, must widen, not close or abolish, the yield gap. Sir Roy's proposition, in fact, is self-defeating. /Mr. Wincott is a writer on financial subjects and a regular contributor to The Financial Times./

INDIA

Balance of payments in 1958
Reserve Bank of India, Bombay, Bulletin, April 1959, pages 430-436

India's external payments position showed unmistakable signs of improvement in 1958 after the strains of 1957. The current account deficit narrowed down from Rs. 452 crores in 1957 to Rs. 355 crores ($746 million) in 1958. The improvement was attributable to a significant cut in commercial imports, which were almost Rs. 200 crores below the level of the previous year, reflecting the impact of the severe import policy adopted in mid-1957. Exports fell by Rs. 57 crores between the two years, the surplus on invisible account was reduced, and there was some rise in Government imports.

In 1957, the two major elements of financing were the utilization of external assistance and the draft on foreign exchange reserves. In 1958 external assistance, Rs. 244 crores, was by far the more important element, thereby easing the drain on the reserves. The downward trend in reserves, which had been almost continuous since April 1956, came to a halt towards the end of October 1958, and by the end of December reserves had recovered by Rs. 14 crores to Rs. 344 crores.

The Sterling Area's contribution to the over-all improvement in the current transactions during 1958 was very meager, and the deficit (Rs. 44 crores) with this area fell only slightly. The deficit with the dollar area (Rs. 65 crores) narrowed significantly during the year under review. There was a marked improvement, however, in transactions with the countries of the Organisation for European Economic Cooperation; the deficit for this area declined sharply by Rs. 71.8 crores to Rs. 178 crores. The only region which showed an adverse trend was the "rest of Non-Sterling Area." Transactions with this region resulted in an increased current account deficit of Rs. 68 crores during 1958. /One crore = 10,000,000 rupees. -- The article also contains several tables which give breakdowns by commodities and areas./

GERMANY

German trade restrictions - Three-year waiver granted
The Times, London, June 1, 1959, page 8 - From Geneva

With reluctance, the contracting parties to the General Agreement on Tariffs and Trade have agreed to grant to the Federal Republic of Germany what, in effect, is a three-year moratorium in which to remove restrictions on an important range of agricultural and industrial products. The Federal Republic has no balance of payments difficulties, and as long ago as 1957 the International Monetary Fund ruled that it was no longer entitled to maintain import restrictions under Article 12 of GATT.

The Federal Government has undertaken to remove some restrictions on July 1, and to carry the process of liberalization farther by stages after that date. For the time being the list of products affected is being kept secret, the reason being, apparently, that for the Federal Government the question has both political and economic aspects, and that there will be need for exchanges of view with the interests concerned in Germany. A year ago the German restrictions were estimated to cover 19 per cent of its total imports, 2 per cent representing industrial goods by value. Later statistics are not available.

An important feature of the new decision, officially described as "a framework for a settlement," is that the import restrictions which the Federal Republic will have the right to maintain for three years on the specified list of products will be so administered as to impose no practical impediment to or discrimination against imports from any country which is a contracting party to GATT -- in other words, the products will be the subject of unlimited global tender arrangements without restrictions as to quantity or source of supply. Another mitigating feature is that the decision provides for annual consultations on the progress of the promised liberalization.

NORWAY

Increased State control over private banks
Neue Zürcher Zeitung, Zürich, May 16, 1959, section 8 (in German)

A Norwegian monetary and banking committee, after several years of preparation, has submitted proposals for a new banking law which, without a doubt, indicates that the Socialist Party is aiming at setting up far-reaching controls over private banks. A majority of the committee suggests that one-fourth of the board of directors in all banks with more than 100 million kroner deposits ($14 million) be appointed by the State. In this manner the State will obtain direct control over and an area of influence in the banking system. Three members of the committee, moreover, are in favor of empowering the State to appoint a director to the larger banks (with a balance sheet of 500 million); if the board of directors consists of more than five members, the State is to nominate at least two. The committee claims that heretofore the management of the larger banks was concentrated "one-sidedly" in the hands of representatives of shipping interests, of industry and commerce, of shareholders, and of higher bank employees. In future the interests of the general public had to be looked after by the nomination of representatives of the authorities, it is claimed!

Of course, there is sharp criticism of these proposals in economic and banking circles. It is pointed out that this bank reform evidently is only the first step to a complete control over the banking system by the State as set forth in the program of the Norwegian Socialists. It is stated that in no other western country are the banks subject to surveillance by "political commissars." Such proposals can only do damage abroad to the creditworthiness and the prestige of Norway. Comments in the Party's organ are characteristic of the attitude of the Socialists; they accuse the banks of pursuing "their own aims" in contradiction to the policies of the Government. The activities of the Norwegian banks are no longer to consist of "private money transactions"; rather they are to be subject to the political aims of the "organs selected by the people." At that, the Norwegian banks already are subject to fairly rigorous credit controls.

In the last few years the Norwegian Government has been exceedingly busy to convince foreign countries that Norway -- in contrast to the first few postwar years -- has been pursuing a more liberal and more realistic economic policy. In view of the weak foreign exchange position of the nation it was first of all necessary to create more good will abroad in order to mobilize extensive credits and to interest foreign capital in direct investment. The Norwegian Socialists, however, through these plans for a banking reform, have unequivocally given to understand that they are continuing to hold on to their old ideas of a socialistic and planned economy. Evidently the liberal elements in the Workers' Party do not seem to be able to get the upper hand.

Norway's interest in capital imports
Neue Zürcher Zeitung, Zürich, May 12, 1959, section 11 (in German)

Prime Minister Gerhardsen has announced that Norway is again making efforts to attract foreign investment capital. Mr. Trygve Lie, the former Secretary-General of United Nations, will be a special emissary for the Government and will try to encourage more interest abroad in participation in Norwegian industrial projects. He will also submit to the Government a concrete investment program and keep the authorities and private concerns informed of any important developments in connection with this program. Under his direction there will be set up a new advisory committee on foreign investments in Norway; the Minister of Industry, the Minister of Commerce, the Governor of the central bank, and a notable representative of industry will be members of this committee.

The Prime Minister emphasized that during the next few years, more than ever, it was of great importance to concentrate on the expansion, the modernization, and the automation of Norwegian industry, particularly of the electric power industry, in order to improve Norway's competitive position in international markets and to increase the export of industrial goods. He stated that the lack of capital was a great obstacle and that therefore Norway had to put forth greater efforts to obtain more investment capital and maintain better relationships with foreign industrial concerns and financial institutions. He felt that Mr. Trygve Lie was particularly qualified for his new task because of his vast experience in dealing with other nations and because of his great personal prestige.

FINLAND

Foreign payments position
Bank of Finland, Helsinki, Monthly Bulletin, April 1959, page 2

Finland's foreign exchange position continued to improve during the first quarter of 1959. The net addition to the foreign exchange reserves amounted to 8,400 million markkaa ($26.3 million), and was even slightly larger than the increase in reserves during the corresponding period of 1958. The seasonal decline in reserves, which normally occurs during the second quarter, but frequently also affects the first, appears so far to have been weaker this year.

It is significant that nearly all of this accumulation of foreign exchange represented gold and fully convertible currencies; holdings of these rose by 7,000 million markkaa to 46,000 million, whereas in the same period of 1958 they had declined by 500 million markkaa. Much of this was due to improved export earnings. While total export earnings declined slightly from last year, receipts of convertible currencies from merchandise exports increased by some 15 per cent. No firm conclusions, however, should be drawn from figures covering such a short period, particularly since in the first quarter of 1958 ice conditions were especially severe. On the contrary, the weakness of western markets for Finland's main export products continues, and the recent adverse price developments will be reflected in the export earnings later in the year.

Finland's holdings of inconvertible currencies increased by 1,400 million markkaa in the first quarter, which is in sharp contrast with the same period a year ago, when these holdings rose by 8,600 million markkaa. The shift towards better balance in the bilateral sector reflects to some extent the slowing down of

exports in the period before new trade agreements for the current year had been concluded. In the case of some countries, where agreed swing credit limits had been reached, there were also either delays in exports or export payments, or settlements of excess balances in third currencies. Thus holdings of bilateral agreement currencies at the end of March of this year were 17,800 million markkaa, compared with a peak of 22,600 million reached in August 1958.

ISRAEL

United States aid to Israel
The Financial Times, London, May 21, 1959, page 14 - From Beersheba

United States aid to Israel -- in the form of grants, loans, and sales against local currency -- reached a value of almost $670 million in the past ten years. While the total amount of assistance has remained fairly stable from year to year, the composition of such aid has changed, with grants being gradually replaced by loans, especially in the last two years. Summing up United States assistance to Israel since 1948, Mr. John Haggerty, Head of the United States Operations Mission in Israel, has pointed out that Special Assistance (mostly grants and gifts) accounted for $291 million of the total, technical aid for $13 million, and sales of agricultural commodities for Israel pounds and agricultural food gifts through voluntary agencies for $183 million. Loans from the Export-Import Bank totalled $162.5 million, and loans from the Development Loan Fund amounted to $20 million.

URUGUAY

Exchange control
Bank of London & South America, London, Fortnightly Review, May 9, 1959, page 432

The Diario Oficial of April 14 contains a re-instatement of Law No. 8729 of May 29, 1931, which has been in abeyance for some years. Under the terms of this Law, the Banco de la República is charged with the control of foreign exchange operations and of transfers of foreign capital; commercial banks, exchange brokers, and other firms authorized to operate in exchange are required to hold detailed registers of all operations at the disposal of the Banco de la República. Any transactions which do not respond to the regular and legitimate movement of normal economic and financial activities, and operations considered to be of a speculative nature, or those tending to affect in one way or another the value of the currency are prohibited. The Banco de la República is authorized, alone or in cooperation with the principal commercial banks, to organize the forward exchange market. Fines of up to 25 per cent of the operation, with a minimum of 500 pesos, to be doubled for second offenses, are imposed for infringements, with the additional possibility of withdrawal of exchange operating licenses.

INTERNATIONAL COOPERATION

Changing pattern of European fuel needs - Emphasis on oil
The Financial Times, London, May 28, 1959, page 5 - From Brussels

Within 20 years the fuel requirements of the six Common Market nations may be entirely covered from their own resources, or from the Sahara. Estimates of future needs and resources are given by a joint committee of the High Authority and the six

Governments of the European Coal and Steel Community. The committee has been working out the approach to a joint policy for all forms of energy. The characteristic of the next twenty years will be increased reliance on oil, full use of the ultra-cheap sources (lignite and natural gas), and increasing competitive difficulty for coal. The fact that Sahara production comes from within the Rome Treaty area is important, the report states, for two reasons: 1) It removes balance of payments difficulties and 2) It gives added security for future supplies.

The report comments on the possibility of a sudden deterioration in the outlook for coal as soon as means are found for transport of Sahara gas to Europe. Sudden dislocation, it says, must be avoided so far as possible. It notes, in particular, that the countries of the ECSC now depend for oil predominantly on the Middle East, for which they also constitute the main market. These supplies, apparently, may not all be displaced, since some part of the Sahara production may be diverted to the American market, owing to its high content of the lighter petroleum products.

The only use for coal for which there is no substitute is coke-making for the metallurgical industries. The potential demand for coke in 1975 is put at 120 million tons, against 75 million tons in 1955. In other uses, coal is in competition with other products. The fuel required for transport, for example, will have increased by 1975 by 75 per cent to 91.6 million tons coal equivalent, but it will be using only 8.7 million tons of coal, against 19 million.

The report calls attention to the rigid price structure in the coal industry. The argument has hitherto been that, if prices are limited during a boom, they must be protected during slumps. The logical conclusion from this is that policy is often diverted into fiscal and other measures to protect coal against oil. In the new situation it would be preferable for prices to be allowed to fluctuate so that coal could find its own level in open competition. Machinery is suggested for a freight equalization fund to help stabilize the landed prices of American coal, which must, in any case, be a determining factor in the early future.

SHORT NOTES ON CURRENT ARTICLES

Japanese banks: Classification and scale

The Oriental Economist, Tokyo, May 1959, pages 305-311. Japanese banks fall into five categories (excluding the Bank of Japan): Ordinary, Long-term credit, Foreign exchange (special), Trust banks, and Mutual financing banks. The article gives a short description of the organization and functions of the institutions in each of these categories. It also contains a brief sketch of operations for a selected number of banking houses.

Liberia on the way - By Edmund C. Schwarzenbach

Swiss Review of World Affairs, Zürich, June 1959, pages 16-18. Mr. Schwarzenbach, a political foreign correspondent for the Neue Zürcher Zeitung, points out the differences between Liberia and other African coastal areas. Liberia has made much greater economic progress, aided by a shrewd policy pursued by its present Government. The writer states that the country owes its advanced position to its resources on natural rubber and particularly to its large high-grade iron ore deposits which produce substantial revenues. Large amounts of foreign capital are being attracted to the country. The Liberian Republic, on the basis of "modern" contracts, shares in the ownership, the management, and the profits of the organizations set up for the exploitation of these mines.

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GREAT BRITAIN

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Some steel to be cheaper
The Times, London, May 29, 1959, page 14
The Financial Times, London, May 29, 1959, page 10

In a move to encourage bigger orders, the Iron and Steel Board is reducing the prices of steel ordered in large quantities. The reductions, which come into force on June 1, amount to about £ 1 a ton, or 2 per cent, and apply to quantities of 10 tons and upwards, ordered to one specification for one delivery to one destination. The Board believes that savings could be achieved both in mill costs and in transportation if the size of individual orders were increased. At the moment many of the small orders are said to be uneconomic. Reduction for larger quantities, it is stated, should help to strengthen the competitive position at home and abroad of those consumers who take advantage of them. No further changes in the general level of iron and steel prices determined by the Board, up or down, are in prospect.

The reduction in steel prices is not in itself a major move, but it is certainly a move in the right direction. One of the effects of the recession on steel, as

indeed on other industries, was to alter the pattern of stockholding. In the steel industry customer stocks were run down to a very low level, and this was followed by piecemeal hand-to-mouth ordering of particular products in small quantities for quick delivery. For the steel producers this is a most unsatisfactory pattern of trade. It is not only that these small orders cost the industry the benefit of long runs; they also waste time as each order requires special preparation.

Obviously, therefore, the industry was anxious to persuade its customers to go back to a rather more substantial stock position, with the consequence of regular orders for stock in reasonable quantity, rather than recurrent small orders for almost immediate use in production. This is of little importance to the steel sheet producers, but it is a matter of very considerable importance to the specialist steel producers, to producers of steel castings, and to producers of plates. Of course, this quantity discount will not solve the problem by itself, even when it is taken together with the special premium on small orders for steel plate which was imposed last year. In the steel industry, ten tons is not a very large quantity.

The Steel Board's decision was influenced by the desire to promote the productivity of the industry by encouraging more substantial ordering. That certainly was a more important consideration than the possibility of creating a short-term increase in the demand for steel. The latest reports do in any case indicate that the industry will be operating at about 90 per cent of capacity by the end of the year. There may still be one or two weak spots, including particularly shipbuilding demand, but it is estimated that the demand for steel for heavy capital goods will by then be recovering quite strongly; it is, of course, still lagging behind now. There could be some slight weakening of demand for sheet next year, compared with this year's record demand, but even that is not certain. The steel industry retains a certain natural caution about the ability of the motor industry to sell cars at the present rate for an indefinite period ahead.

The reduction in costs which makes this price cut possible will in part flow from the anticipated consequences of the discount itself. There have, however, also been other savings in costs. This cut will pass them on to the rest of industry, and will help to maintain the present competition level of British costs in export markets.

AUSTRALIA

The kangaroo leaps a depression (I)
The Economist, London, May 23, 1959, page 746

The annual economic survey of Australia, just published, is a success story indeed. It tells how in face of the big drop in export prices and other trading difficulties the Australian economy never faltered but went serenely on with its business of expansion.

Twelve months ago even the most optimistic observer could hardly have foreseen the speed and success with which the dangers have been avoided. The drop in wool prices was expected to reduce farmers' incomes by £A 180 million, which the rise in urban incomes could not be expected to offset. Wool, moreover, is still so important a contributor to export earnings (bringing in 40 per cent or so of the total) that a continued slump would have brought a reduction in imports, already tightly controlled by licensing at a total of £A 800 million. As four-fifths of imports are producers' goods, any cut in imports could hardly have been confined to

"inessentials." And to cut producers' goods would have involved far more than immediate falls in production and employment. In Australia the task is not merely to maintain the level of activity; it is also to keep up the rate of progress. A sudden braking would have brought a downward revision of thousands of individual development plans and lasting damage to the confidence of those, both at home and abroad, who are putting their money on the growth of the Australian economy.

These gloomy possibilities have been avoided, thanks to a mixture of good management and luck, and to the general confidence in Australia. The Government and its advisers gave a firm lead by proclaiming that the import ceiling would not be lowered nor immigration reduced, and that the reserves (built up in 1956-57 and standing at £A 525 million last June) were strong enough to withstand a fairly prolonged strain. At the same time they cautiously administered some stimulus to the economy. Australia has no Bank Rate, but some £A 75 million was released during 1957-58 from the Special Accounts which the Trading Banks are required to keep with the central bank, thus offsetting the fall in their liquidity and enabling them to lend stronger support to the economy. Public expenditure was increased, and two loans brought around £A 30 million from overseas. Finally, the Budget for 1958-59 provided for a deficit of £A 110 million -- which has not in fact materialized because things have turned out so unexpectedly well.

So far as the internal situation is concerned, the surprise is that farm incomes, far from being lower than last year's, are likely to be higher. Wool prices continued to sag until recently, but the size of the wool clip was greater. Many farmers had turned some of their land over to wheat, for which at least they could be certain of an interim cash payment from the Wheat Board at the railhead; and wheat and other grains have flourished in an ideal season. For the farmers, moreover, there was the consolation of paying less in taxation, for they always pay tax on the previous year's earnings. Finally, all but the most improvident or the latest comers to the industry had put by some money for bad times, and the fall in their incomes probably affected their saving more than their spending. Meanwhile industry and investors had refused to panic. Immigrant workers have been absorbed, and unemployment, in spite of the wishful lamenting of the opposition, seems not to have risen above about 2 per cent of the labor force. Output of manufactures has risen almost everywhere (the most significant exception being textiles) and private capital expenditure still goes ahead.

In the external accounts, the surprise is the high rate of capital inflow. Including the official borrowing overseas and the undistributed income of overseas companies operating in Australia, this inflow may approach £A 200 million, compared with £A 136 million in 1957-58. It is true that this rough estimate includes an item of about £A 20 million which is merely the rectification of a little muddle about the valuation of imports of petrol from Indonesia; and that no one yet knows whence the money came and what use it was put to; but it is nevertheless apparent that during the period of doubt and depression elsewhere, investors were still prepared -- more than ever prepared -- to send their money to Australia.

Exports too have been rather higher than was expected. Twelve months ago the estimate for the current year was £A 750 million, but that had been slipping towards £A 700 million as export prices still fell. But now it seems likely that they will reach at least £A 780 million. Not only has the greater quantity of wool been sold (higher prices will hardly be reflected in this year's return), but beef has been fetching higher prices in the British market and the cheaper cuts have been selling

like hot hamburgers in the United States. Butter has been a less uneconomic export since European competitors were persuaded not to dump it in Britain. Even metal exports, despite the cut of 10 per cent in American imports, have done better than was expected. Imports, meanwhile, have continued to press against the ceiling of £A 800 million.

The net result of all this is that if the reserves have fallen at all they will not have fallen more than about £A 50 million, which is little more than the amount by which they fell last year. But the latest reports are that the capital inflow has so increased in recent weeks that the final result for the year ending in June will show them at hardly less than the figure of £A 525 million with which the year began -- the very figure that was proclaimed as being capable of withstanding a siege. Australians can now look forward to a kindly Budget and to a more liberal policy for imports. This is a triumph but, as they themselves are the first to acknowledge, it is a triumph with an element of luck in it. The possibilities for the future, which has considerable risks, will be discussed in a second article.

NEW ZEALAND

Budgetary surplus
The Financial Times, London, May 28, 1959, page 5 - From Wellington

A budgetary surplus of £ 16.3 million ($45 million) and an actual cash surplus in Government accounts of £ 15.4 million was announced by Mr. Nordmeyer, the Minister of Finance, in a review of accounts for the year ending March 31. He said that the salient point was that the year ended with a cash surplus of £ 15.4 million. "If we had not borrowed abroad to finance the capital program, we would have shown a deficit of £ 12.3 million," he added. He disclosed that small savings yielded only £ 6.5 million, as against the estimated £ 18 million. The Minister said that the extent to which taxation could be reduced would partly depend on support for the current internal loan of £ 15 million which was going slowly.

GERMANY

West German debts
The Times, London, June 5, 1959, page 22

West Germany has repaid about DM 5,400 million ($1,291 million) of her foreign debts in the period between the signing of the London Debt Agreement in 1953 and March 31, 1959, according to the Monthly Report of the Deutsche Bundesbank. She still has debts totalling DM 9,250 million, but of this amount DM 1,360 million are foreign bonds in German hands.

In 1953, West Germany's foreign debts were estimated at DM 14,500 million. On March 31, 1959, Germany's prewar foreign debts amounted to a total of DM 4,268 million. Postwar debts included an item of DM 1,235 million to Britain, but from this an amount of DM 706 million must be deducted in prepayments and foreign currency aids deposited with the Bank of England. There was also a DM 35 million debt to France, DM 3,474 million in economic aid by the United States, and DM 241 million under the agreement to buy United States surplus equipment. In the years from 1953 to 1956, Germany has repaid DM 3,007 million of her foreign debts, in 1957 DM 799 million, in 1958 DM 811 million, and in the first quarter of this year DM 847 million.

AUSTRIA

Austrian overdraft credits to the East block
Neue Zürcher Zeitung, Zürich, May 21, 1959, section 9 (in German)

The announcement that credits will be granted by the Export Fund with a view to facilitating the re-export to the West and overseas of import goods from Eastern Europe is considered by the Ministry of Finance first of all a means to bring order into the bilateral accounts with East European countries which have been sadly out of balance. For almost four years now all the people's democracies have been in the habit of not only utilizing the overdraft credits granted, but in some cases to exhaust them completely and even to exceed them.

According to the latest reports by the Austrian National Bank, claims against the East at present amount to 337.5 million Schilling ($13 million) indicating that they have again risen by 7.4 per cent since the start of the year. Bulgaria, Czechoslovakia, Rumania and, recently, Hungary have been endeavoring to balance their credits and even repay them slowly by delivering merchandise against them. However, Poland and the Soviet Union are using these credits frequently, and Yugoslavia continuously, to the permitted upper limit. Thus, these credits have practically become permanent long-term credits granted by Austria to the East Block which, so far, has not offered any equivalent values in return.

SPAIN

Devaluation for Spain?
The Statist, London, May 30, 1959, page 840

Spain is clearly coming under increasing pressure to carry out a general reform of her currency structure aimed at ending the present multiplicity of rates and establishing the value of the peseta at a more realistic level. The report of the International Monetary Fund mission, which carried out a thorough investigation of Spain's economic conditions, is not yet available. But a hint of the kind of proposals it might contain has been given recently in a statement by Mr. Samuel Waugh, President of the Export-Import Bank, at the close of a visit to Madrid. If the Spanish Government stabilized the currency, he said, and strengthened the export potential, the Bank would be willing to grant it additional financial facilities, particularly for the purchase of capital goods.

The Spanish authorities carried out a devaluation of the peseta a few years ago, aimed at making the country's products more competitive in world markets. Whether that was sufficient to establish the currency at a realistic level, it is difficult to say. What is certain is that since then inflationary pressures have made such heavy inroads into the purchasing power of the peseta that the rates at present quoted for many classes of business are such that the country's traders have little chance of holding their own against their foreign rivals. Some indication of the extent to which the official rate structure is out of touch with reality is provided by the fact that the Spanish note has recently been quoted in the international currency markets at about 170 to the pound sterling, whereas the highest of the series of official rates is no more than 117.

Though currency reform would make things much easier for Spain inasmuch as it would give a much-needed boost to export earnings and restrain imports, it would not

by itself furnish a full answer to the problem of putting the country on a sound economic basis. After more or less stagnating economically for years, Spain has recently embarked upon a relatively vigorous expansion program, turning to account for this purpose the very considerable increase in foreign exchange receipts brought about by her inclusion in the American aid program. Unfortunately, while this is from the longer-term point of view all to the good, in the short-term it has given rise to distortions of a serious kind. In particular, spending power has been permitted to grow so fast that even after allowing for the extensive relief derived from the inauguration of American aid, there has been a striking growth of the money-goods gap. The Spanish authorities now have to devise a way of re-establishing a money-goods balance. Unless they can accompany the reform of the foreign exchange structure with measures to achieve this result, the peseta is doomed to suffer a whole series of devaluations.

IRAN

World Bank loan of $72 million to Iran
The Times, London, May 30, 1959, page 6

A loan of $72 million to Iran for road building and improvement was announced by the World Bank. It is the largest loan ever made by the Bank for a road project. Four private American banks are to provide $12 million of the loan. The loan is for a term of 17 years and bears interest at 6 per cent. It is the Bank's second loan to Iran; the first, in 1957, was for $75 million.

The loan will be used to finance work on about 1,530 miles of main roads in eastern and southern Iran including the trans-Iran highway from the Persian Gulf to the Caspian Sea. It will also be used for the improvement of a 270-mile road link connecting the Shiraz province with the gulf ports of Khurramshahr and Bandar Shapur, for the planning and the preliminary engineering work for feeder roads in the principal agricultural areas, and for main roads to be included in Iran's next road program.

ARGENTINA

Finance - Monetary expansion
Bank of London & South America, London, Fortnightly Review, May 9, 1959, p. 420

The Secretary of Finance recently issued a Press statement explaining the main causes of the monetary expansion which took place between December 31, 1958, and April 7, 1959. According to figures supplied by Dr. López the gross increase in monetary circulation between the two dates was 8,442 million pesos, of which the main items were 3,466 million pesos arising from differences in negotiation of exchange, almost entirely arising by compliance with import exchange contracts outstanding on December 31; 2,887 million pesos were for advances by the Banco Central to the Government and were the proceeds of credits obtained from abroad; and 1,818 million pesos represented advances to banks, including rediscount operations.

The communiqué explained that nearly 3,000 million pesos of the total increase were reabsorbed by the Banco Central as a result of overseas remittances, increased deposits of commercial banks with the Banco Central, and other factors. Therefore the net expansion of monetary circulation was of the order of 5,545 million pesos.

CANADA

How much boom? - The outlook - By Dalton Robertson
The Financial Post, Toronto, June 13, 1959, pages 1 and 8

The outlook for Canada's exports and for business spending on new plant, equipment -- two soft spots in the otherwise firm Canadian economy -- depends to a great extent on the turn of events in the United States. What happens in these two key areas is important because their impact, or lack of it, on over-all Canadian expansion will largely determine the size and duration of the new Canadian boom. Signs are beginning to appear here and there, indicating that the U.S. expansion is maturing fast enough and fully enough to influence Canada's exports and capital investment plans:

New contracts for industrial construction in the United States and new orders for machinery have both moved up smartly since late last fall and they will likely carry U.S. business spending on plant expansion to boom levels by next year. Some of this spending will be reflected in purchases of Canadian source materials; some will spill over into expansion of U.S. subsidiaries in Canada and some into resource development projects for the far future. The U.S. boom is far enough along to spell a pick-up in Canadian sales of some traditional natural resource products, although the improvement among these hitherto lagging items is still tentative. In April, for example, Canadian sales of newsprint, largely to the United States, ran $3 million higher than a year before, helping to reduce the year-to-year losses recorded in earlier months of this year.

There was also a distinct improvement in sales of aluminum, lumber, copper, and oil from the low levels of a year ago. Farm machinery exports also showed further gains. While healthy signposts, these improvements are still of minor importance in the over-all trade picture. Just about all of the $25 million year-to-year gain in sales to the United States can be accounted for by a relative newcomer to the export field - uranium. If current expectations in the United States are realized, more muscle will be added to the Canadian boom late this year and early next year.

Among several sensitive indicators which usually anticipate the coming pace of business activity in Canada, a few are showing weakness. Discounting seasonal influences, housing contracts are running at low levels. And the stock market is showing hesitancy despite over-all business optimism. Two areas, however, where sharper gains can be counted on later this year, are: 1) New orders for producers' durable goods. These, as might be expected, are still well below 1955 levels. But by March of this year, such orders were riding well above levels of last year and had been chalking up steady improvement for three months. The real pick-up in these orders will come when business outlays on new plant and equipment begin to advance, perhaps late this year. 2) Contracts for industrial building have been running sharply below boomtime values for a good many months. But engineering consultants claim that industrial building plans now on the drawing boards will reach the contract stage by September and pull totals well above the levels of a year ago.

/The Financial Post of June 20, page 1, contains a further article on "The Outlook" pointing out that consumer credit is on the upsurge in the United States and that Canadian consumers may be getting ready to follow suit./

INTERNATIONAL COOPERATION

"Outer Seven" trade plan
The Financial Times, London, June 15, 1959, page 1 - From Stockholm

A draft plan for a trading association of the "Outer Seven" nations outside the Common Market with the ultimate aim of promoting negotiations for a wider European settlement within the framework of the Organisation for European Economic Cooperation has been worked out by experts who met in Stockholm in the early part of June. The plan has been submitted to the Governments of the seven countries concerned, and the Ministers of Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom will meet in Stockholm in July to consider the report and decide on it.

Details of the plan are still confidential, but it suggests as a first step the reduction of industrial tariffs by 20 per cent on July 1, 1960, to catch up on the six-nation lead. Subsequently they would be reduced and eventually eliminated over a ten-year period. Their abolition would be approximately parallel, but somewhat faster than in the case of the Common Market countries.

As regards industrial products, the abolition of quantitative restrictions and the establishment of rules to ensure fair competition and to identify the origin of goods are also suggested. The plan also provides for a special agreement on agriculture -- of particular interest to Denmark -- following bilateral talks between interested countries. Fish and other marine products would be treated separately from agriculture and proposals for a special agreement on them have been made.

It is understood that the trading association will have no supra-national authority, but there will be a Steering Board and a small Secretariat. Commenting on the Stockholm talks, the Swedish Delegate stated the general feeling among all delegations had been to keep in step with the Common Market. Since the aim of the talks has been to find a common denominator, several problems remain unsolved. Thus it was recognized that Portugal, less industrialized than the other six, might need special protection. Concerning a possible Nordic Customs Union, this could technically be integrated with the proposed trading association, but the other countries expressed their desire that it should be non-discriminatory towards them.

SHORT NOTES ON CURRENT ARTICLES

Quarter century of Japan's economy

The Oriental Economist, Tokyo, May 1959, pages 249-264. It is 25 years since the first issue of The Oriental Economist was published. This article looks back over this span of years and attempts to give an outline of events and economic developments during this period, with particular emphasis on the war and postwar years. It describes the changes in the pattern of Japan's industry, which parallel those which took place in other countries. Actual war damages and losses cannot be accurately estimated, but defeat and occupation made possible some reforms which became the basis for sound economic growth. The article also discusses the economic burdens arising from the Peace Treaty which are called the "just reward of Japan's actions." It closes with an analysis of Japan's present economic position, and it contains a great many tables giving current index figures for the various economic sectors.

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GREAT BRITAIN

Investment and stocks
The Financial Times, London, June 19, 1959, page 10

The two big imponderables in the United Kingdom economy at the present time are stocks and capital investment. Consumer spending is buoyant, and looks like remaining so. Exports have been doing better than expected and, as business conditions improve throughout most of the world, they should continue to do well. Public spending this year will be higher than last, both on current and on capital account. What effect will this recovery have on the level of stock-holding in industry, and on capital investment plans in private industry? These are both vitally important questions.

The level of stocks in existence at any given time can be as high as six months' total production or more, and since the war it has been the behavior of stocks which more than any other variable has tended to falsify the economic calculations of governments. The recession last year was at least in part due to a general destocking movement in industry. Similarly, the basic weakness of the United Kingdom economy at present is the lack of demand for capital equipment. Unless this situation changes, heavy industry will remain in difficulties and, what is even more

serious, the basis for further massive expansion in the productive system over the next few years will not exist. How long will it be before the recovery in demand for consumer goods leads to an increase in demand for capital equipment?

The figures published in the current Board of Trade Journal on stocks and capital expenditure do not shed much fresh light on the subject. They relate to the first quarter of the year, and therefore cover the period before the recovery in industrial production really got under way. Total stocks remained almost unchanged during the quarter. This compares with a 1 per cent fall during the previous quarter, but on the other hand there is normally a rise in stocks during the first three months of the year which did not take place this year. Such evidence as is available suggests that during the current quarter there will be a slight rise in stocks, but it does not look as if there is going to be a major restocking movement. The low level of imports in May is a significant pointer. The rise in retail sales since the Budget has almost certainly led to a fall in stocks of finished goods -- especially in such things as domestic appliances, where there was some stockpiling by manufacturers before the Budget. On the other hand, as output picks up, stocks of work-in-progress must rise automatically. But by and large it looks as if industrialists have accustomed themselves to operating on lower stock levels than was normal in the earlier postwar years, and this will continue. Any adverse impact of this trend on production will of course be offset to at least some extent by the favorable impact on the balance of payments.

So far as capital expenditure is concerned, there was an over-all drop of about 5 per cent in the first quarter, mainly concentrated on building plant and machinery for manufacturing industry. It would be surprising if this downward trend is not reversed later in the year. Last autumn the official forecasts were that capital spending in the private sector in 1959 would be about equal to 1958, increases in non-manufacturing offsetting falls in manufacturing industry. Since then there have been a number of favorable factors. Demand for commercial vehicles has recovered sharply since the Budget, and builders, contractors, and producers of machine tools and engineering equipment report an impressive rise in the number of inquiries, which should in the course of the next few months turn into an upsurge of orders. However, the important factor here is the time lag involved in investment decisions. It looks as if the investment goods industries as a whole will not experience any really marked recovery until next year but, if all goes well, the rise then may be quite spectacular in certain sectors.

AUSTRALIA

The kangaroo leaps a depression (II)
The Economist, London, May 30, 1959, pages 854-855

The first of these two articles about the Australian economy began as a chant of victory and ended by quietly touching wood. Australia has come through the rough and tumble of the past two years looking poised and sleek -- very unlike the battered wreck that emerged from the slump of the early thirties. Luck has played a large part in this result; equally, however, there could be a run of bad luck.

A rapidly rising population and developing industry need rapidly rising imports, and rapidly rising exports to pay for them. The big question mark overhanging the Australian economy is whether the recovery in wool will go far enough to finance development at an unchecked rate and, if not, what other exports would fill the gap. Failing a further rise in wool prices, could there be a big increase in the quantity

of wool sold? The world's need for wool will certainly rise with its population, but the ability to pay for it will not rise to anything like the same extent; and there is always the fear of fresh encroachment by synthetics, and the nightmare about a new one which, as well as being permanently pleated and drip-dry, would peg itself out on the line and be proofed against atomic fall-out.

Meat, which is Australia's second largest export, has been selling very well. But it would be too much to hope that Australia will for long be able to fill the American hamburger with its lower grade beef and (hush, not a word to the Press) with Northern Territory buffalo. American producers are sure to put a stop to this trade as soon as they are doing less well themselves. Britain is, of course, the main market for meat, taking the bulk of the export surplus under long-term agreement. But Britain is not an expanding market, and if it eventually had to join the Common Market, Australia would lose the preferences on meat. European food production seems likely to become more efficient as a result of integration, so the prospects of selling much more Australian foodstuffs there seem dim.

Could wheat fill the bill? It should be able to on the standard of the product and the efficiency of production -- as well as the increasing millions of potentially reformed rice-eaters -- but its present and future are threatened by American surplus disposals, lately rechristened "Food for Peace." Australia's former customers in Asia say quite frankly that they will not buy Australian wheat so long as there is a prospect of getting it free or on "P.L. 480" terms (Public Law 480 of the United States means that you pay for American surpluses in your own currency and probably even get that back as a loan). To give one example, India in recent years had been buying an average of 37 million bushels of Australian wheat a year, but last year bought only half a million. Since some genius thought of a new word for it, it is difficult to say a word against the surplus disposals policy. Mr. McEwen, the Australian Minister for Trade, however, explained some of its side effects when he visited Washington recently, and received an unsolicited assurance that the practice would not be extended. But it would perhaps be a mistake to be too sanguine now that philanthropy and prosperity in the Middle West are linked.

Some Australians are so carried away by the progress of secondary industry that they talk almost as if they could now dispense with the exports of primary products on which the economy is still based. Exports of manufactures have reached the surprisingly high proportion of 14 per cent of total export value, the principal market being New Zealand. But it is not realistic to see Australia as the workshop of Asia. Behind the double wall of tariffs and import duties, nurtured by high wages, by a 40-hour week, and by unavoidably short production runs, Australian industry can flourish in the home market despite high costs; but a great export future is just not in sight.

A conference of chambers of commerce recently demanded an inquiry into the effects of tariffs, and it might do some good if suitable people could be found to conduct it; anything that would secure a more selective development in Australia should be welcomed, however difficult politically it might be. Steel exports should be an exception to these discouraging thoughts, since this industry, for the types of steel in which it specializes, is a low-cost producer. But in general it is to minerals, not to manufactures, that Australia must look for a significant contribution to higher export earnings. They should have a great future, if they are spared too many catastrophes like the recent slashing of lead and zinc imports into the United States.

Thus Australian development is still dependent on the weather, on a handful of products, on a single big market, and on the inflow of capital. Whether that development can continue unchecked depends partly on trading conditions beyond Australia's control and partly on its own resolution in reducing costs. At all events it has emerged stronger and more confident from its latest trial.

NEW ZEALAND

Additional licenses for imports
The Financial Times, London, June 6, 1959, page 1 - From Wellington

Additional import licenses worth £ 20 million will be made available for the current licensing year, Mr. Boord, the Minister of Customs, has announced. This is the second change made in the current licensing schedule, and follows the announcement of additional £ 18 million worth of goods in April.

The latest relaxation brings the official estimate of private imports for the year to £ 230 million. The increases are spread widely among consumer goods, manufacturers' raw materials, plant, etc. Imports of wines and spirits will be increased by one-quarter and one-third, respectively, over 1958 figures. Mr. Boord stated that the present increase had been made possible by a greater improvement in New Zealand's overseas trade position since April than had been expected. He warned, however, that in spite of recent improvements, the Government had still to be prudent in the use of overseas funds.

NETHERLANDS

Holland steers to starboard
The Economist, London, June 6, 1959, pages 954-955

Full employment and an increase in productivity were the central points in the statement with which Professor de Quay, the new Premier, introduced in the Dutch Parliament, the first postwar Cabinet to exclude the Socialists. The statement fully reflected their exclusion. The de Quay's Government's first concern is to decrease budgetary deficits in order to leave more room in the capital market for private investment. Tax relief is highly desirable, according to the Premier, but possible only in so far as the increase in national income exceeds the rate of increase of the Budget. He announced, however, specific plans for tax alleviation for private enterprises designed to stimulate industrial expansion and exports.

This implies a completely new approach to Holland's economic and social problems. The anti-inflationary measures of 1957 left a feeling of general disappointment. Dr. Drees' paternalistic Government had tried to distribute the burden of these measures equally among wage earners, private business, and the State. In practice, the private sector restricted its activity much more than was provided for, while the State increased its spending much more than had been agreed. Herein lay the origin of the crisis of December 1958, which provoked the March elections.

The Socialists, however, still saw no reason to try a new approach. They continued to pin their faith to an improvement of the paternalistic Drees system, which had proved more effective in distributing welfare evenly than in expanding it. Their tendency to go just a little too far in this direction was the fundamental reason why the old coalition could not again be restored.

Two immediate measures were announced by the new Cabinet. House rents, which had been kept artificially low since the war, will be raised, and State subsidies to farmers for milk will be abolished. This will lead to an increase in the cost of living. But compensation will be sought not, as hitherto, by a general wage increase, but by increases negotiated by employers' and employees' associations without direct State intervention. The rate of wage increase will, therefore, differ in the various branches of industry. The Government will only intervene when price increases which affect the Dutch competitive position on the world markets are involved.

The paragraph in Professor de Quay's statement on the six-nation European Common Market and relations with the other members of the Organisation for European Economic Cooperation reflected a new trend in public opinion. There is widespread disappointment and mistrust in Holland about the consequences of the Community policy. This is due to several disturbing experiences. First, there is the coal crisis which, under the pressure of a Franco-German bilateral policy, will lead to a policy of import restrictions that is to the disadvantage of the ports of Amsterdam and Rotterdam, and will cause an unwelcome increase in coal prices. Secondly, there is general concern about the Franco-German bilateral grain agreement, which is regarded as indicating how the articles of the six-nation Rome Treaty on minimum prices for agricultural products and long-term contracts will be carried out. Finally, there is the reluctance of France, and of Germany under French pressure, to negotiate further on the question of the Free Trade Area, which the Dutch have always held to be a necessary complement to the six-nation Common Market. The new Premier has emphatically repeated this Dutch conviction.

NORWAY

The balance of payments in 1958
Norwegian Commercial Banks, Oslo, Financial Review, No. 2, April 1959, page 7

A decrease in the Norwegian merchant fleet earnings and a very considerable import of ships from abroad characterized Norway's balance of payments in 1958. According to preliminary figures published in February, the trade and services balance (which includes freight earnings, the export and import of ships, etc.) shows a deficit for 1958 of 1,060 million kroner, as against a surplus in 1957 of 303 million. If interest payments to foreign countries and aid from abroad are included, the deficit rises to 1,235 million kroner ($173 million) as against a surplus of 147 million kroner the year before.

Preliminary figures show that export earnings (excluding the sale of ships abroad) dropped by 301 million kroner, while import expenditures (also excluding ships) fell by 512 million. The actual trade balance was therefore somewhat more favorable than in 1957. Shipping, however, shows a negative trend. Exports of ships decreased from 432 million kroner to 177 million, and imports of ships increased from 1,566 million in 1957 to 2,328 million kroner in 1958, producing a deterioration in the balance of over 1,000 million. Net freight earnings at the same time fell from 3,375 million kroner in 1957 to 2,700 million in 1958. These two items thus represent a fall in earnings of about 1,700 million kroner in the year under review. But the deterioration from a surplus of 147 million kroner in 1957 to a deficit of 1,235 million in 1958 is not as serious as it sounds. The considerable investment in ships will, given normal conditions, mean a new contribution to the country's foreign exchange earnings.

The large working deficit in 1958 was partly covered by public loans raised abroad, totalling 282 million kroner. The State borrowed $17.5 million in the United States, and Oslo Municipality $11 million. Other loans amounted to 86 million kroner, and 725 million kroner was covered by loans on ship imports. Norway was also able to draw on the credit quota in the European Payments Union. /The article contains a table giving comparative figures for 1957 and 1958./

ITALY

Italy widens import rules
The Financial Times, London, June 3, 1959, page 5

Further liberalization of Italian imports from the dollar area just announced increases to more than 80 per cent the goods which may be freely imported from the dollar area and assimilated countries under the exchange control system. There is considerable liberalization of finished industrial goods, machine spare parts and apparatus, as well as semi-finished products and raw materials.

COMMUNIST CHINA

Budget for 1959
Far Eastern Economic Review, Hong Kong, May 7, 1959, page 645

According to the draft State Budget for 1959 submitted in April to the National People's Congress in Peking by the Vice-Premier and Finance Minister, Mr. Li Hsien-nien, total revenue will amount to 52,010 million yuan (about $21,121 million). Revenue and expenditure are balanced. Compared with the final account for last year, there is an increase in revenue of 10,150 million yuan (or 24.2 per cent), and an increase in expenditure of 11,050 million (or 27 per cent).

The increase in revenue is fully based on existing possibilities, the Vice-Premier stated. The bulk of the revenue will come from expanding State enterprises and undertakings. Contributions to be made by the Communes to the State will remain basically at last year's level. Taxes are expected to provide about 38.3 per cent of total estimated revenue. Taxes of various kinds will amount to 19,900 million yuan; of this amount industrial and commercial taxes will account for 15,200 million, and the agricultural tax for 3,300 million yuan. Revenue from enterprises and undertakings is estimated to amount to 31,800 million yuan, or 61.1 per cent of the budgeted amount, and 44.4 per cent more than last year. Other sources of income will provide 310 million yuan.

The main items on the expenditure side are: Economic construction, outlay for which is estimated at 31,700 million yuan, or 25.9 per cent more than last year. For social services, culture, and education an amount of 5,730 million has been set aside; this is 32 per cent more than last year. National defense accounts for 5,800 million yuan, an increase of 16 per cent over last year, or 11.2 per cent of total expenditure. The sum set aside for administrative expenses is 2,690 million yuan. Repayment of loans will require 1,100 million, and aid to foreign countries 600 million, or 218 per cent more than last year.

Investment in capital construction is estimated at 27,000 million yuan, or 26 per cent more than in 1958. In addition, there will be funds for capital construction pooled by various localities and departments on their own. A new item

added to the construction outlay is the sum of 1,000 million yuan for investment in the People's Communes. This amount will be distributed to the poorer Communes in order to help them expand their production. Beginning with 1959, the State discontinued the issue of nation-wide Government bonds for economic construction. The provinces, autonomous regions, and municipalities may issue local Government bonds if local conditions require. All but a few provinces have decided not to issue Government bonds this year.

The Vice-Premier stated that "the present draft State Budget for 1959 is a Budget designed to exploit existing potentialities and support an all-round leap forward; it is drawn up in the spirit of coordinating . . . all the activities of the whole nation to mobilize under central leadership all positive factors in the various fields; it is a Budget that is at once bold and well-founded." He further said that to implement the 1959 Budget successfully "we must improve business accounting, raise labor productivity, and reduce production costs."

COLOMBIA

Economic progress

Bank of London & South America, London, Fortnightly Review, May 23, 1959, p. 485

President A. Lleras Camargo, in a recent speech to the Colombian people, stated that two of the most difficult obstacles met by the present Administration, namely political violence and the economic crisis, could now be considered to have been virtually overcome. Vigorous attempts had been made to attain monetary stabilization and to curb the inflationary trend, and the disequilibrium of the external balance of payments had been drastically reduced. He also told the people that the Administration had settled more than $350 million of the foreign commercial arrears, which totalled about $500 million in 1957. At the same time the level of the gold and foreign exchange reserves of the Banco de la República had been increased. More than 35 per cent of current imports were capital goods destined for the country's essential development, and there was no unemployment problem.

In addition to mentioning these achievements, President Lleras pointed out that the Administration would not suspend enterprises initiated by the former régime if they were in the interests of the country. He also said that the Government is studying measures to encourage private investment and is proposing to grant tax exemption of up to 100 per cent for a period of seven years to enterprises which plan to establish basic industries utilizing at least 60 per cent of local raw materials.

INTERNATIONAL COOPERATION

The new Wheat Agreement

Barclays Bank, London, Review, May 1959, pages 32-33

After a lapse of six years the new International Wheat Agreement which comes into force next August will have the United Kingdom as a member. At first sight, this reversal of policy on the part of the British Government may seem somewhat surprising. On closer examination, however, it is apparent that the new pact no longer contains some of the less satisfactory elements present in the current and expiring Agreement, and indeed goes some way, if only a very small way, towards dealing with the problem of the embarrassing world surplus in wheat.

One of the most important differences between the new and old Agreements lies in the method of computing the quotas which each member nation should have. From next August, although the principle of maximum and minimum prices for sales will be retained under the Agreement, the fixed quotas will be abolished and importing members will merely guarantee to purchase at prices below the maximum a certain percentage of their imports from exporting members who will undertake to supply the importing countries' commercial needs at prices within the price range.

The United Kingdom has undertaken to purchase 80 per cent of her imports under the Agreement, but as about 97 per cent normally comes from signatories to the Agreement, no hardship will be suffered from this aspect of the new arrangements. The minimum price remains in fact unchanged, namely, 150 Canadian cents a bushel for the standard grade of wheat (No. 1 Manitoba Northern) but the maximum price is reduced from 200 to 190 cents; it was the fixing of the latter in 1953 at 205 cents which caused the United Kingdom to withdraw six years ago.

Provided that no marked change occurs in the world wheat position during the coming three years it does not seem likely that the United Kingdom will secure any marked advantage or suffer any disadvantage from rejoining the International Wheat Agreement. However, having been instrumental in bringing about a number of improvements in the Agreement, the United Kingdom authorities are to be congratulated on their decision which has undoubtedly pleased Australia and Canada and which is in accordance with the undertaking given last year at the Commonwealth Trade and Economic Conference in Montreal.

SHORT NOTES ON CURRENT ARTICLES

Policy for the development of Southern Italy: Results and prospects

Banco di Roma, Rome, Review of Economic Conditions in Italy, Special Issue, Jan. 1959, 120 pages. The policy for the development of Southern Italy has almost completed its first cycle (the stage referring to the formation of social fixed capital) and is entering the second cycle (industrialization and development of services). It is felt that some of the results achieved so far deserve to be more widely known. For this reason the Banco di Roma is publishing this Special Issue. The articles in it were contributed by well-known personages who either assisted in drafting the policy or in implementing it. The first article "Balance of policy in favor of Southern Italy" is by the Hon. Pietro Campilli. He describes the reasons underlying the Government's intervention and those leading to the decision to enter the second cycle. The next article, by Professor G. Pescatore, outlines briefly "Activity of the Cassa per il Mezzogiorno" and the new horizons which have been brought into focus by the new law. Professor A. Molinari, in an article "Effects of the policy for the development of Southern Italy on the national economy" seeks to identify the effects of the development policy at a national and regional level. Professor F. Ventriglia in "The industrial credit policy in Southern Italy" describes the aims and results of the special industrial credit policy applied to Southern Italy. Professor G. Mirabella analyzes the development policy pursued by the authorities in Sicily in his article "Changes in Sicilian economy between 1947 and 1957." Finally, Professor Glauco Della Porta in "The economic development of Sardinia: Results and Prospects" discusses the effects of the policy on Sardinia. The issue also contains a schematic exposition of special legislation concerning new enterprises in the South.

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WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Sterling after six months of convertibility
The Times, London, June 29, 1959, page 14

It was exactly six months ago that sterling and the other European currencies became fully convertible on external account. It has been an enlightening and encouraging half year. Apart from a few weeks of doubt about the Belgian franc, no currency troubles have been met and payments difficulties have hardly intruded into the sphere of European politics.

There have also been some positive gains. The rehabilitation of the French franc has been the most spectacular as well as being the most welcome. Above all, sterling, the currency with more to lose than any other from last December's convertibility moves, has shown a firm front to the world. It has been a half year, indeed, in which the major European currencies have shown that their return to normality in 1958 was no passing phase.

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Having achieved so much it is natural to wonder what the next moves are likely to be? How soon and in what directions will they lie? The latest trade figures suggest that sterling at least can expect to gain greater freedom and the recent London talks between the Chancellor of the Exchequer and the German Minister of Finance indicate some of the things that might be contemplated. The payments position is in a far healthier state at mid-summer than anyone could have expected six months ago. At that time, the terms of trade were expected to move rapidly against Britain, while imports were expected to rise and any recovery in exports was still problematic. Now the trade gap is almost at vanishing point and the payments balance large enough for the optimists of Whitehall to be talking already of 1959's payments surplus exceeding the record one of 1958. Moreover, the recovery in sterling commodity prices and the rise in shipments to many Sterling Area countries augur well for the rest of the year. The only real doubts outstanding are the extent to which a recovery in industry will lead to a large rise in imports and the extent to which election fears will act as a brake on sterling during the critical months of September and October.

If, indeed, little goes wrong in the coming months, what is the right order of priority for the next relaxations? Should dollar import controls be reduced again before an increase in the tourist allowance? Or should further freedom be granted on capital account before more freedom is given to people living in these islands? The remarks of the German Finance Minister after the recent talks suggested that the possibility of extending convertibility to residents in concerted moves with western Germany had been thoroughly explored. It was even stated that a scheme might be ready for the International Monetary Fund meeting at the end of September.

It has since been stressed in Whitehall that this was running far ahead of events and that, although these topics had certainly been discussed, they had not taken the precise form suggested in some reports. Nevertheless, moves to give residents more currency freedom (whether in the form of bigger tourist allowances or otherwise) would get strong support after so many of self-denial. Sterling convertibility cannot forever remain for oversea consumption only.

SOUTH AFRICA

South African loan confirmed
The Times, London, June 11, 1959, page 16

The World Bank has now approved a loan equivalent to $11.6 million to the Union of South Africa. The funds will help carry out a railway expansion program that has been one of the chief objects of public investment in the Union ever since the program was first begun soon after the end of World War II. This is the Bank's sixth loan for the improvement of railway services, and brings the total it has lent for that purpose to nearly $137 million.

Twelve banks are participating in the loan, without the World Bank's guarantee, for a total amount of $2,484,000 representing the first three maturities and part of the fourth and fifth which fall due between December 1961 and December 1963. The loan is for a term of 10 years and bears interest at 6 per cent, including the 1 per cent commission which is allocated to the Bank's Special Reserve. Amortization will begin in December 1961. In addition to the transport loans the Bank has lent $60 million for electric power expansion in South Africa, bringing total Bank lending in that country to $196.8 million, of which $43 million has been repaid.

FRANCE

French foreign liabilities
Neue Zürcher Zeitung, Zürich, June 8, 1959, section 4 (in German)

The French foreign debt amounts to slightly more than $3 billion and repayment is distributed over a span of 25 years. About $2 billion of this amount represents mainly the consolidated foreign public debt, whereas about $1.1 billion represents short- and medium-term foreign liabilities of the Foreign Exchange authorities. These include liabilities to the International Monetary Fund as well as liabilities arising from the liquidation of the European Payments Union. The EPU debt consists of two items: 1) the special credit of $150 million and 2) the consolidated bilateral debt which had reached $484.5 million at the time of the liquidation of the EPU. The Ministry of Finance has published the following figures for interest and amortization payments due in 1959-60:

	1959	1960
	(In million $)	
I. Long-term liabilities		
United States	30	30
Export-Import Bank	71	72
Other (Canada, Great Britain, etc.)	59	60
II. EPU liabilities		
Special credit	6	65
Bilateral debt	96	66
III. IMF liabilities	5	266
Total	267	559

During the current year an amount of $187 million for amortization and of $80 million for interest will fall due. Payments of $30 million to the United States Government and of $48 million to the Export-Import Bank may be postponed at the request of the French Government; thus the amount due in 1959 would be reduced to $189 million. But it is highly improbable that the French Government will make such a request, rather it is the intention of the French authorities to accelerate the amortization payments on foreign liabilities and even to pay in advance certain amounts due, such as the EPU special credit.

In 1960 France will have to pay a total of $559 million, of which $479 million represents amortization and $80 million interest. A postponement of these payments could be requested only for an amount of $30 million, payable to the United States. The amount due in 1960 to the IMF is given at $266 million. This is probably an estimate only, since the exact amount of the repayment will depend on the level which the French currency reserves will have reached at that time.

Foreign "open-end trusts" banned by France
The Times, London, June 19, 1959, page 20

The French Government will shortly issue a decree barring foreign "open-end investment funds" from operating in France, according to Ministry of Finance sources. It is understood that this decision has been taken because the Finance Ministry is opposed to the activity of French open-end investment trusts. French banks have recently been pressing for permission to form French trusts, particularly because of competition from foreign ones. The Government's opposition to the start of operations by French open-end investment funds is believed to arise from fears that they might attract capital needed for capital investment and also switching from Treasury bonds.

ALGERIA

Currency developments
The Times, London, June 5, 1959, page 27 - From Paris

The French Government has just announced its intention to make uniform the coins current in Algeria with those current in France. It will also apply the same reform to the Algerian bank notes except for a single distinguishing mark. The Bill laid before Parliament postpones the reform until the pacification of Algeria, however. Another Bill preserves the existence of the Bank of Algeria as "constituting the foundation of a credit policy adapted to the needs of an underdeveloped country." However, the Algerian Budget is henceforth to be submitted to the French Parliament. Since the disappearance of the Algerian Assembly it has escaped all legislative controls.

SWITZERLAND

Swiss bank reserves lower
The Financial Times, London, June 9, 1959, page 7 - From Geneva

Since the beginning of the year the monetary reserves of the Swiss National Bank have declined consistently; from the record level of 9,157 million Swiss francs on January 15, they dropped to 8,748 million ($2,022 million) on May 30, consisting of 8,275 million in gold stock and 473 million Swiss francs in foreign exchange holdings.

This is the first time in seven years that the currency reserves of Switzerland have shown a downward trend. In 1958, the Swiss balance of payments accounts closed with a substantial surplus, estimated at 800-900 million francs, mostly due to the decline in imports. A further surplus must have occurred in the first four months of 1959, when the foreign trade deficit was only 294 million francs, against 354 million in the corresponding period of last year. Moreover, there has been a rise in the number of foreign tourists coming to Switzerland. In view of these favorable factors, an increase in Swiss monetary reserves might have been expected. In fact, however, the reverse occurred.

The cause of the change seems to be due to the recent deficits on capital account which had been more or less in balance last year. There are various reasons for this deficit trend. In the first place, the European convertibility measures of last December have led to a decline in the influx and to some extent to an actual withdrawal of short-term foreign funds placed in Switzerland with a view to their ultimate conversion into dollars. This movement has been accentuated by the repatriation of short-term French funds as a result of the stabilization measures taken by the French Government. In the first quarter of 1959, the total liabilities of Swiss banks towards foreign correspondents fell by 200-300 million francs.

At the same time, as a result of the increased liberalization of capital transactions by other European countries and the greater confidence in those currencies which have been rendered convertible, there has also been a certain acceleration of the outflow of short-term Swiss funds. On top of this, Switzerland has resumed in the last few months long-term capital exports.

Already this year foreign loans totalling 270 million Swiss francs have been issued on the Swiss capital market, while no similar transactions had been effected in the past two years. In addition, Swiss investment trusts have placed a considerable volume of capital abroad, both through participation in foreign loans and through the direct acquisition of foreign securities. The resultant strain on the capital account section of the balance of payments has been reflected in the foreign exchange markets where there has been some reduction in the premium for the Swiss franc.

PORTUGAL

Rapid development under the new Six-Year Plan - By Pedro Theotonio Pereira
The Financial Times, London, June 2, 1959, page 8

The Financial Times of June 2 is publishing several articles dealing with the economy of Portugal. One of these, contributed by Senhor Pereira, Minister of the Presidency, discusses the new Six-Year Plan, a summary of which is given below.

Last year saw the completion of Portugal's first Six-Year Plan; the second Plan embraces the years 1959-64, and its objectives and the volume of expenditure will far surpass all that was foreseen for the first Plan. The policy of the new Plan, however, is the same. It is again conceived as an instrument of State intervention in the national economy, without prejudice either to initiative or to the reasonable element of competition that should exist in private enterprise. The Minister stressed that the full collaboration and combined effort of the Government and the nation is essential in order to fulfill the expectations in regard to economic development under the Plan.

The Plan tends to concentrate on the lines of action judged to be essential for the realization of the following aims: 1) To increase the national wealth; 2) To improve, therefore, the standard of living of all the Portuguese people; 3) To ensure more jobs, a higher rate of employment, and more opportunities; and 4) To import less and to export more. Accordingly, the preparation of the Plan was based on a study of the needs and resources of the Portuguese economy, without distinction between public and private sectors. The State proposes to put into effect a certain number of initiatives and to draw up rules of procedure for dealing with the private sector should it decide to intervene with measures of protection, taxation, capital sharing, credit concessions, or by any other form of stimulus, direction, help or coordination.

The Plan will require a total investment of 30,000 million escudos ($1,050 million). This is a large amount, especially when it is considered that total expenditure, both ordinary and extraordinary, in the Budget for next year is estimated at 9,500 million escudos. During the first year of the Plan, up to 5,280 million escudos will be invested in Portugal and the oversea provinces. Senhor Pereira explained that the means to pay for the new Plan will come from the work and the thrift of all the Portuguese people, from their capacity to produce and to create wealth, and from their anxiety to progress and to improve their lives.

Side by side with the resources available to the State, by virtue of its traditionally careful administration of public funds, will be those deriving from private concerns and individuals, credit and insurance institutions, savings banks -- in fact, the entire economic structure of the nation. In addition to this, there

are the resources to be obtained in appropriate measure by means of external credits. It is pure illusion to think that economic expansion can be carried out through extending the purchasing power of the general consumer unless there is a solid and constant increase in national production, the Minister added.

Although agriculture still employs 47 per cent of the Portuguese working population, it contributes no more than 25 per cent of national production. During the coming years a growing shift of labor from agriculture to industry must be expected. It will be necessary to provide work for all sections, a task all the more difficult since the population continues to grow at the rate of 100,000 a year. At present, industrial activities occupy about 25 per cent of the working population and account for 37 per cent of national production.

In conclusion, Senhor Pereira stated that today it is recognized that the wealth of nations depends more on the intelligence, character, and the capacity for work of their peoples than on their natural resources. The Plan has not neglected this aspect of the education and specialized training of the human element. Above all, the second Plan has in mind to prepare for the future. But the influence of the transformation now taking place will shortly begin to make its effect felt in many sectors of the Portuguese economy.

MOROCCO

Central bank in Morocco
The Times, London, June 5, 1959, page 27

A newcomer will soon join the ranks of central banks. The long negotiations between the Government of Morocco and the international shareholders of the Banque d'Etat du Maroc have at last resulted in agreement. Morocco will thus follow the example of Tunisia in obtaining control of its bank of issue, though in the latter case it was merely a question of making a deal with one European country, France.

The Banque d'Etat du Maroc was founded in 1907 under the Act of Algeciras and its capital distributed among all the signatory powers. Some of them dropped out long ago, including the German Reich, the Austro-Hungarian Empire, and the empire of the Tsar; even the British share seems to have disappeared for the most part. In fact, successive cessions had finally placed the controlling interest in the hands of the Banque de Paris et Pays-Bas. But the board still contained representatives of half a dozen nations. All of them have now approved the agreement which ends its charter seven years before it was due to expire and provides for disposal of its assets.

The existence of an independent central bank in Morocco leaves the new kingdom a member of the Franc Zone though its franc is now superior in value to that of the metropolitan franc by 17-1/2 per cent, since Morocco, as Tunisia, chose not to recognize the devaluation decreed on December 27 by the French Government. By various internal devices and with the aid of certain external developments such as Spain's refusal hitherto to modify the value of the peseta, both new States have well resisted the repercussions of the French devaluation to date. But it is by no means certain that, if given an opportunity to revise their decisions, their francs might not come into line once again with the French franc. The French franc's successful showing to date may make the consession more attractive.

IRAQ

Iraq leaves Sterling Area
The Financial Times, London, June 23, 1959, page 9

A joint communique was issued by the Treasury and by the Government of Iraq on the recent Baghdad discussions about the future financial relationship between the two countries. The representatives of the Government of Iraq, the communiqué states, informed the representatives of the United Kingdom Government of the Iraqi Government's decision to cease to be a member of the Sterling Area and to diversify Iraq's currency reserves and foreign balances.

The United Kingdom has agreed to make corresponding modifications in its Exchange Control regulations in conformity with the decision, including the redesignating of the sterling accounts of Iraq as external accounts. The necessary arrangements for giving effect to the change will be made between the two central banks which will continue to maintain friendly relations, the communiqué added.

Iraq's decision to leave the Sterling Area was announced by Major-General Kassem earlier this month. It is to be presumed that this step, as the earlier withdrawal from the Baghdad Pact and the termination of economic agreements with the United States, has been taken mainly for political reasons and to avoid the appearance of undue dependence on the West. There is no reason to suppose that it will have any great immediate effect, except that Iraq sterling accounts will now be marked external. There has been no suggestion that the Iraq Government wishes to impose restrictions on sterling transactions or to vary the pattern of oil payments. The dinar will probably remain pegged to the pound sterling for the time being, if only because there is no very obvious advantage to be gained from unpegging it, but the free market rate for it in Beirut has already slipped a little.

Iraq's sterling balances amount to some £ 90 million ($252 million), and it is believed that most of them are held in fairly liquid form. The Kassem Government may well decide to hold a larger proportion of them in gold, continuing a process which has been under way for some time, but a large part will have to remain as sterling working balances unless there is a radical change in the pattern of the country's trade. One privilege which Iraq loses as a result of its decision is that of automatic access to the London capital market: future applications to invest in Iraq will be subject to the approval of the United Kingdom Exchange Control authorities and will presumably be judged on their economic merits.

ARGENTINA

Austerity program for Argentina held back by political opposition
The Financial Times, London, June 3, 1959, page 5 - From Buenos Aires

The Argentine Government's economic program is steadily losing its political support; so far the stabilization plan has met with no support from trade union or political opposition leaders. The results of local government elections held in three provinces since the introduction of the austerity program at the beginning of the year have shown an abrupt withdrawal of support from the official party and further evidence of the disintegration of the political "union" which gave Dr. Frondizi, the President, his election victory in February 1958.

In practice the most noticeable effects of the plan's operation to date have been a steep and continuing rise in internal prices, an all-round lowering of living standards, and a recession of real wages to levels lower than any recorded for many years. The inevitable sequel has been wide-spread labor unrest and pressure -- partly politically inspired -- for a new round of Government-decreed wage increases. These trade union demands are backed by the contention that the excessive expenditure of Government departments and institutions is not being cut, as the austerity program requires, and that inflation will not be eradicated so long as official spending is maintained at a level twice as high as revenue expectations and financing possibilities warrant.

The combined effect of currency depreciation caused by exchange devaluation, the higher tariffs applied to all public services, and the inflationary pressures still latent in the economy, has been a rise in the cost of living of over 50 per cent since the beginning of the year.

The large influx of foreign capital, which the exchange reforms were expected to generate, has not so far materialized, although substantial foreign credits have been made available for the strengthening of the country's precariously low reserves and for the supply of urgently needed equipment for public transport services, etc. Foreign capital and technical assistance have also been forthcoming for the development, under State auspices, of the country's oil resources which in time, as progress is made towards the goal of self-sufficiency in fuel, will ease the present pressure of fuel imports on the balance of payments. Parallel with this trend, however, allowance must be made for the incidence on the balance of payments in the years immediately ahead of increasingly heavy financial service remittances under short-term foreign debt obligations. The payments outlook thus remains overcast.

SHORT NOTES ON CURRENT ARTICLES

Switzerland's capital exports

Union Bank of Switzerland, Zürich, Bulletin, April 1959, 19 pages. The first section of this article points out in a general way the advantages and drawbacks of capital exports, particularly for a country such as Switzerland. The next section deals with the new developments and concepts of capital exports which characterize the postwar period. Immediately after the war it was the Swiss Government and the Swiss banks which engaged in capital exports. In the early 50's, a revival of private capital exports took place as confidence in the stability of other countries was revived. A third phase began in 1956, during a period of decreasing liquidity in the money and capital markets. In 1957, in order to preserve the tight supply of loanable funds for domestic demands, the placing of foreign offerings on Swiss markets was suspended. But domestic capital continued to leave the country by way of bank loans and purchases of foreign securities. Unfortunately, there are no statistical data available as to the size of this type of capital outflow. Finally the article discusses the current problems of capital exports after the reopening in 1958 of the Swiss market to foreign bond offerings. It is emphasized that capital exports should not be restricted by the authorities unless justified by compelling circumstances. The article suggests that there is a need for an overhaul of the Swiss stamp duty law because the comparatively high issuing charges act as a deterrent to potential borrowers. /The article gives a table with data on bond issues floated in Switzerland since 1945./

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GREAT BRITAIN

Long-term issue for banks - By Lombard
The Financial Times, London, June 22, 1959, page 3

There is clearly a great deal to be said for the proposal put forward by the General Manager of the Royal Bank of Scotland, Mr. W. R. Ballantyne, in an address before Scottish bankers that the banking system should formalize its "surreptitious" entry into the long-term lending business. But it seems to the writer that the re-casting of the banks' policy on the deposit side should precede or accompany this development rather than come afterwards, as he suggested.

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The main point of Mr. Ballantyne's remarks was that the banks are to all intents and purposes already departing to an important extent from their traditional practice of lending only for short periods but that, so long as this change of approach is

not recognized, they are putting themselves at a disadvantage in two ways. In the first place, they are allowing business concerns that are actually borrowing "long" to take money at unduly low rates because they are ostensibly getting it on a short-term basis. In the second place, they are missing lending work that would come their way if it were generally realized that they were in the long-term lending business. The United Kingdom's bank lending has for all practical purposes always been very much less short-term in character than it was supposed to be. And there is no doubt that nowadays quite a significant part of their total lendings is not even nominally callable at short notice.

Provided certain conditions are satisfied, there seems to be a great deal to be said for formalizing this entry into the long-term lending field -- both from the viewpoint of the banks and that of the banking public. The banks, for their part, can probably earn rather more on their long-term lendings if such operations are designated as such. Long-term rates are usually a little higher than short-term ones even in these flexible monetary policy days. And more long-term lending business would clearly come the banking system's way if it were known that it would extend it a warm welcome. From the borrower's viewpoint the additional expense of borrowing "long" would often be regarded as a price well worth paying for the greater sense of security that a formal arrangement would provide.

It would be as well to recognize, however, that wider formal participation by the banks in the work of providing permanent capital could have an adverse effect on their other customers. For it clearly cannot be assumed that the banks will always have unlimited resources at their disposal. And the necessity to enforce a credit squeeze would mean pressing very heavily on the ordinary borrower if they had a substantial proportion of their money tied up in advances that could not be recalled. If they are going to do their best by the "borrowing public" as a whole, therefore, the banks ought to aim at restricting their long-term lending to projects that cannot be as easily financed in other ways -- and some of the long-term loans supplied by banks to industrial enterprises during the past year or two could have been obtained with no great difficulty from other sources.

This is one of two conditions that clearly ought to govern any formal bank invasion of the long-term market. The other concerns the banks' liability to depositors. The experience of recent years -- i.e., the banks' practice of showing gilt-edged portfolios in balance-sheets at well above market values -- suggests that the public now has such confidence in the banking system that it would not bother overmuch if it became much less liquid. But the banks obviously cannot count upon this favorable situation continuing indefinitely. So they ought to match any reduction in the short-term emphasis in their lending with a corresponding adjustment on the borrowing side. Mr. Ballantyne recognized this in his address. But he suggested that they should wait until they have formalized the market for "term loans" before establishing a "term deposits" system.

Bearing in mind that the banks have already gone a long way into the long-term lending business without lengthening the average life of their deposits, the writer believes they ought to start reducing the short-term emphasis in deposits before making further moves on the advances side. The argument that they must never run the slightest risk of being left worse off on the earnings side even temporarily in developing their business would be difficult to defend. And in any event, it is surely time that they had a good over-all look at this aspect of their business with an eye to bringing their procedures for remunerating even short-term deposits up to date.

SOUTH AFRICA

Foreign assets in South Africa
The Times, London, May 19, 1959, page 14

The incidence of foreign investments in South Africa and the role played by the United Kingdom are discussed in a Barclays Bank report. In view of the current conflicting reports concerning the economic state of the Union some of the facts revealed are especially interesting.

The Bank, which has more than 600 branches in South Africa, quotes the results of a census of foreign assets and liabilities undertaken in 1956 and which are now published for the first time. These disclose that total funds held in the Union by overseas governments, international bodies, and "sundry" investors at the end of 1956 amounted to £ 1,396.4 million ($3,910 million). Of this amount, 58 per cent was directly controlled from abroad. The Bank states that "bearing in mind recent trends . . . it can probably be assumed that the stake of the outside world in the Union at present is well in excess of £ 1,400 million." The United Kingdom was the Union's most important investment creditor, controlling some £ 860 million. Her largest contribution (about one-third) was to mining enterprises.

RHODESIA AND NYASALAND

Slowing tempo in the economy
The Financial Times, London, June 16, 1959, page 14 - From Salisbury

To set the stage for Mr. Macintyre's Budget statement due before the end of June, the Federal Government published its economic report for 1958. The report calls attention to the continued slowing down in the over-all tempo of the economy. External trade, national income, company profits, gross investment, all reflect the trend and underline the repercussions of an adverse movement in the terms of trade. The net domestic product fell by 5 per cent in 1958 to a total of £ 332.2 million. This fall was partly offset by the reduction of £ 12.2 million in income paid abroad. Government revenue from company income tax fell by 25 per cent to £ 30.6 million in 1958; Government surpluses were £ 10.3 million; personal savings fell by £ 5.6 million, and total net borrowings declined by £ 12.5 million.

FRANCE

Recovery in France - More imports to be freed
The Financial Times, London, July 1, 1959, pages 8 and 9

The French Government is expected to increase the liberalization of imports from countries of the Organisation for European Economic Cooperation from 90 per cent to 94 per cent within the next few days. At the same time, there may be an increase in the liberalization of dollar goods (at present 50 per cent on the basis of 1953 trade).

This step will bring pressure on French industrial prices. It is estimated that French prices are as much as 30 per cent above those in neighboring countries. This is the second occasion this year on which trade liberalization has been used as an inducement to French manufacturers to keep down their prices. This policy is

in healthy contrast with that pursued by the Government in the past, when trade barriers were used to allow internal inflation to continue unchecked.

The extent of dollar liberalization will be closely watched by Canadian and United States Governments, because at the recent meeting of General Agreement on Tariffs and Trade, spokesmen from North America insisted on the need for "non-discriminatory liberalization." There would probably be protests if the French Government were now to give more proportionally to OEEC exporters than to dollar exporters.

The fact that the French Government is to take further steps to liberalize imports is much less important than the motives inspiring this action. For many years after the war, successive French governments tried to insulate the French home market as far as possible from foreign competition. Since the devaluation in December of last year, the Government has been liberalizing imports in order to expose French producers to more competition, thereby exercising a downward pressure on prices. Trade liberalization in fact was, and still is, an integral part of the over-all program of "truth and severity."

There can be no doubt that the reforms have worked. In part, the success must be attributed to the personal prestige of General de Gaulle. But economic factors -- and a slice of luck -- have played their part. Whereas after every previous devaluation French prices were immediately marked up by practically the full differential, last time the general climate of recession helped to keep price increases within reasonable limits. This in turn helped to reduce the pressure behind wage demands, and good spring weather meant that food prices were kept down. Another bad season might easily have frustrated the whole reform program, but the Government was lucky and no one can deny that it deserved its good fortune.

Difficult problems remain. Though the reserves have been rising, their level is by no means satisfactory yet since heavy foreign debt repayments fall due within the next three years. Export figures have been showing a rising trend, but the increase has been largely due to car and steel shipments to the United States. While the prospects for motor manufacturers remain good, the exports of steel could decline steeply once the need to stock up against a United States steel strike is past. In spite of these reservations, France's economic situation today is better than it has been for a long time.

It is clearly of great importance to the West as a whole that France should be economically strong, and France's allies have every cause to be satisfied at recent developments. The improvement in France's position should not, however, give rise to the assumption that France's negative attitude on the problem of a multilateral association between the Six and the rest of Europe will necessarily undergo a rapid change. It is true that the economic factors which inspired French resistance to the Free Trade Area plan are rapidly losing their force. French industry is becoming more competitive day by day. But the political differences remain. Recent French policy in regard to North Atlantic Treaty Organization has been based on claims which cannot easily be satisfied, and demands for support for France's Algerian policy have introduced a new complication. Obviously, France's newly-found economic strength will come to be reflected more and more in the external economic field. It is creating the conditions for a new approach to Europe's trading problems, but at the moment the political obstacles remain more formidable than economic ones ever were.

"Heavy" franc to be issued in July
The Financial Times, London, June 17, 1959, page 5 - From Paris

France's new "heavy" currency is to come into circulation next month. As from July 15, new notes issued will be surcharged with their value in heavy francs. Thus the 500 franc note will be surcharged 5 francs and the 10,000 franc note 100 francs.

Shops advertising their prices in heavy francs will be required to show the old prices in the existing francs side by side. This is to prevent attempts to "round up" prices to the nearest "new" franc. Some Paris shopkeepers are reported to have done this already; this seems to have been one of the reasons for the delay in issuing the new currency, due to have started in April. M. Pinay, the Finance Minister, is determined to avoid any inflationary effects resulting from application of the new currency.

GERMANY

Saar is re-integrated with Germany
The Financial Times, London, July 6, 1959, page 1 - From Bonn

The Saar was re-integrated economically with West Germany at midnight on July 5. Under the supervision of a currency commission, the exchange of French francs for D-marks at the par rate of 100 French francs = 0.8507 D-marks began on July 6. The Franco-German agreement provides that the 40,000 million French francs exchanged be given to the Bank of France. The balance above this amount will be credited to West Germany in the Bank of France.

The million Saarlanders have been citizens of the West German Republic since political reunion took place on January 1, 1957. The transition from the French to the German economy was spread over a maximum period of three years and has taken place six months ahead of the time limit.

The integration brings to West Germany an extra annual production of about 17 million tons of coal, 3 million tons of pig-iron, and 4 million tons of raw steel. This raises the proportion of West German coal production in the Coal and Steel Community from 54 per cent to 61 per cent, pig-iron from 29 per cent to 34 per cent, and steel from 28 per cent to 32 per cent.

It is reported from Paris that the main concern of the French under the new conditions will be to maintain their trade with the Saar. The province has ranked as one of France's good customers, and the 1956 Treaty provides for duty-free quotas for trade between France and the Saar.

SWEDEN

A tighter credit policy by the Riksbank?
Neue Zürcher Zeitung, Zürich, June 16, 1959, section 10 (in German)

The Swedish Riksbank has recently submitted to the Swedish banks plans providing for more stringent regulations concerning the cash reserves of the credit institutions. Up to the present the commercial banks have been obliged to keep a part of their deposits in liquid form. The current ratio for the larger banks is 32 per

cent of deposits; for smaller banks there are lower ratios, the minimum being 15 per cent. In view of the continuous inflationary trend in the Budget and the implied danger of an inflationary credit expansion, the Riksbank is planning a marked increase in the cash reserve ratios in order to decrease the liquidity ratio in the entire banking system.

Banking circles have received these proposals with some reservations. This past spring the banks introduced new credit policies, particularly in the field of consumer credit financing and, for practical reasons, there is a desire not to restrict these credit grants so soon. There is also a desire to prevent the Riksbank again from directing its stabilization policy and that of the State mainly against productive investment in the economy.

The efforts of the Riksbank, however, are very easy to understand when considered in the light of Sweden's present economic and financial position. The State's Budget has been increasing in size because of mounting expenditures for social reforms and for measures in connection with the employment policy. For the time being there seems to be no political basis for a realistic reform of social and financial policies. For the fiscal year 1959-60 there is an estimated budgetary deficit of no less than 3 billion kronor ($580 million), including capital expenditure. The average yearly resources of approximately two billion kronor of the Swedish capital market no longer are sufficient to cover the enormous financial needs of the State. For years, therefore, share issues in the private sector of the economy have been kept at a minimum in order to make available funds for public investment. Nevertheless, the budgetary deficit has to be financed to an ever greater extent by the sale of Treasury Bills and short-term obligations to the bank of issue and, above all, to the commercial banks. The present disturbingly high liquidity of the banking system -- which, in the face of continuous economic expansion, could lead to a credit inflation -- may therefore be attributed in the main to the budgetary crisis.

The banks, however, are in a position to counteract the new credit policy of the Riksbank for the very reason that inflation cannot be checked simply and effectively by more stringent restrictions of bank credits to the private sector so long as the budgetary deficits show constant growth and so long as other sectors (which are no less important to the economy from a general point of view -- such as the subsidized residential building program) remain free from such restrictions. The residential building program under the Socialistic Government puts an extremely heavy burden on the Budget. It is therefore emphasized that it is most important, above all, to reform the Budget by drastic financial measures in order to get at the root of the evil, instead of attempting repeatedly to cure the symptoms.

In view of the great size of the Budget which threatens to increase even more rapidly in the next few years, banking and industrial circles would without a doubt approve a sales tax of 3 per cent, which has been proposed by the authorities, and which is expected to yield about one billion kronor. Drastic economy measures are also demanded since, despite the unpopular increases in taxes, there still will remain a much too large deficit of about two billion kronor in the fiscal year 1959-60. A period of rapid economic expansion (as seems to be imminent in Sweden) would engender, as before, increasing inflationary trends and balance of payments difficulties in the wake of a much too rapid rise in domestic demand.

HUNGARY

Farm policy
The Financial Times, London, June 12, 1959, page 5

Hungary has issued two more rulings aimed at strengthening its farm collectivization program. The first decree allows that by means of "voluntary exchange" of land parcels collective farms can be moulded into larger units. This so-called voluntary exchange was first introduced several years ago to put pressure on independent farmers to exchange good ground for poor. After the 1956 uprisings, however, the ruling was rescinded and much of the exchanged land was returned to the farmers.

The second new decree authorizes non-agricultural persons to take part in collective operations, giving "political and economic help." Such persons can be functionaries of the State, political organizations, or cooperatives, and are not to be compelled to participate in "common" work. Apparently, this second ruling helps set up a kind of observation corps over collective activities.

LEBANON

Lebanese welcome pact with United Arab Republic
The Financial Times, London, June 11, 1959, page 14

The Lebanese economic agreement with the United Arab Republic just signed in Cairo has received warm approval in both Cairo and Beirut. As expected, the agreement provides for the halving of taxes on Syrians entering Lebanon; the postponement for five years of the law preventing Lebanese citizens from acting as agents for UAR companies in Syria; permission for transfer of profits, interest, and income from Lebanese property in Egypt; coordination of Lebanese and Syrian customs charges and export taxes; and removal of restrictions on free zone purchases, provided prices offered are equal to those in the country of origin.

The last point is regarded in Beirut as the most important. Le Commerce du Levant states that Lebanon can now regain its position as the great distribution center of the Middle East. All leading Lebanese industrialists and merchants have welcomed the agreement, although some express the hope that it will lead to further UAR concessions and that all its provisions will be fully enforced.

Another welcome boost to the Lebanese economy has been the surprise Baghdad announcement that Iraqis will be allowed to spend summer holidays in Lebanon and transfer 300 Iraqi dinars ($840) into Lebanese currency. At least 4,000 Iraqis are now expected.

INDONESIA

Foreign aid for Indonesia
Deutsche Bundesbank, Frankfurt a/M., Press Reviews, June 1, 1959, page 16 (in German)

In the period from 1949 to the beginning of 1959, Indonesia has received foreign aid in a total amount of $851 million. The American contribution amounted to $485 million, and the credits granted by West European countries (Federal Republic of Germany, France, and Italy) and maturing from 8-14 years were $132 million. In

the same period the Soviet Union and other Communistic countries granted aid to Indonesia in a total amount of $234 million. Thus aid from the Communist block is equivalent to about half of the American contribution or a good one-third of the total aid Indonesia has received from the West.

URUGUAY

Shrinking monetary reserves
Neue Zürcher Zeitung, Zürich, June 3, 1959, section 11 (in German)

The Uruguayan Minister of Finance, Señor Azzini, in a speech before Parliament on the economic and financial position of the country stated that at present Uruguay's short-term liabilities in gold and foreign exchange amount to $136 million as compared with $120 million at the end of 1957. Available resources in gold and foreign exchange with the central bank to cover these liabilities amount to not more than $37 million. Even if an amount of $142 million, earmarked as legal reserve requirement (as stipulated in the Uruguayan currency law), is taken into consideration, the net surplus with the central bank, after deducting foreign liabilities, is only $43 million in gold and foreign exchange. This compares with a surplus of about $300 million in 1950 and of $141 million in 1955.

COLOMBIA

Finance - Austerity not to be relaxed
Bank of London & South America, London, Fortnightly Review, June 20, 1959, p. 581

In a speech to the National Congress of Businessmen the Minister of Finance stressed that, although Colombia has made great economic progress, the problems facing the administration are of such magnitude that it is not yet possible to relax the austerity regulations imposed on the economy. He stated that, although by the end of 1959 the commercial debt will have been reduced by $400 million, the exchange resources are heavily committed until 1966. He warned traders not to expect a reversal of the existing import restriction and stated that, in order to maintain a balanced payments position, imports should not exceed an average of $25 million per month.

SHORT NOTES ON CURRENT ARTICLES

American direct private investment in the Common Market - By Marie-Claire Blanchaert

Annales de Sciences Economiques Appliquées, Catholic University, Louvain, May 1959, pages 183-218 (in French). The writer who is an M.S. (commercial, financial, and consular affairs) in the first part of this article compares the general character of American investment in the various countries of the Common Market, drawing her information from the Survey of Current Business. In the second part she describes the varying policies applied by the members of the Common Market with regard to American investment in their territory. She discusses in particular 1) the extent to which these countries encourage or admit foreign investment; 2) the modus operandi as to the entry of foreign capital, its repatriation, and the benefits to be enjoyed by foreign investors; and 3) the legal aspects with regard to the establishment of foreign companies. The writer finds that most American investment capital prefers Germany or the Netherlands, and she suggests that greater efforts be made to attract such capital to Belgium. This would increase Belgium's productivity and enable her to compete successfully with the other members of the Common Market.

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UNITED STATES

Raising interest rates - No easy answer that way - By Lombard
The Financial Times, London, July 15, 1959, page 6

Having demoralized their bond market by pursuing clumsy financial policies in the same way as the British authorities did before them, the United States authorities are evidently now planning to attempt a quick rehabilitation by raising interest rates substantially, again in much the same way as was done in Britain. But experience in this country suggests that no simple answer to the problem of restoring lost confidence in Government bonds is to be found in this direction -- indeed that the effect of the new slide in market prices, arising from higher interest rates, may initially be to give new impetus to the long-term decline in the public's faith in investment of this kind.

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By pressing ruthlessly on with its tight money policy at a time when the business community was wanting to borrow on a large scale to deal with the expansion in activity, the Federal Reserve Board has, not surprisingly, succeeded in making it extremely difficult for the Treasury to borrow the money needed for financing the Budget deficit and repaying maturing bonds. In consequence, short-term rates have risen steeply. And the resulting upward pressure on long-term rates has made it practically impossible for the Treasury to obtain any money of this kind at all at rates falling below the present legal ceiling of 4-1/4 per cent.

So the Administration has been faced with a choice between restricting all its lendings to periods of less than five years -- the rates for which are not subject to legal limits -- and asking Congress to suspend the 4-1/4 per cent long-term ceiling. And, as it has evidently been persuaded to accept the orthodox argument that it would be wrong even in the present situation to allow any lengthening of the average life of the public debt, Congress has in fact been asked to let the ceiling go.

It is interesting to note that in his statement to Congress a month ago explaining and supporting the Administration's request, the Chairman of the Federal Reserve Board used arguments for allowing a new advance in American interest rates very similar to those that were widely used by advocates of dear money in the United Kingdom a few years back. It must be expected, he said, that interest rates would rise at times of increasing economic activity. And anyway, though high by recent standards, existing American rates were not excessive in historical terms, long-term movements since last summer having been within the range of the period from the early part of the century until 1930.

Nothing would be gained, he claimed, by the authorities stepping in to keep interest rates down through support of the bond market. The investing public had learned that inflation tends to follow any such operations and would accordingly regard such "intervention" as an additional encouragement to reduce its holdings of fixed interest securities. Finally, the international level of interest rates was now more closely aligned. And with the demand for capital becoming more international in scope, United States interest rates would increasingly have to reflect world-wide as well as domestic conditions.

In all probability more skillful monetary management -- management that took account, for example, of the fact that one of the most effective ways of putting the Government in a position in which it has to resort to inflationary short-term borrowing is to push funding of long-term debt so ruthlessly that the bond market's appetite dries up completely -- would have prevented the United States authorities getting into the present mess. But now they have reached the pass they have, it is difficult to see how they can get any relief at all without allowing the rise in short-term rates to be extended to the long-term end of the market.

But they will be in for a big disappointment if they imagine that a sharp rise in rates in this part of the field is going to provide them with an answer to their debt management troubles overnight. The decline in the market prices of Government stock that occurs when the authorities get dear money-minded inevitably aggravates any distrust of this type of investment that has already been generated by the erosion of its real value caused by a fall in the purchasing power of money. So although, when the readjustment of interest rates to a higher level has been completed, it is possible to offer an investment with a stronger appeal, yield-wise, than before, demand is unlikely initially to be very robust.

The great difficulty the United Kingdom authorities are having in nursing the Government bond market back to health after they switched over to dear money in the long field demonstrates one thing clearly. It is that, when confidence in gilt-edged has been undermined first by an official failure to keep the value of money stable and then by official attempts to remedy that instability through resort to dear money, it takes a very long time to repair the damage. The only quick answer to the problem, indeed, lies in equipping new bonds with a purchasing power guarantee. And the United States authorities are probably not any more willing to use this device than their United Kingdom counterparts have been.

GREAT BRITAIN

Private eyes - Watching expenditure
The Economist, London, July 4, 1959, pages 9-10

An exceedingly interesting White Paper on control of the public pursestrings has just been issued by the Treasury. Briefly, it reveals that the Government has turned down the proposal by some Members of Parliament last year that an outside committee should inquire into the principles and practice which govern Treasury control of government expenditure. That refusal was to be expected. What was not so generally expected is that an internal inquiry, under the general authority of the Chancellor of the Exchequer, is now to be undertaken instead. The civil servants on it will seek subsidiary advice from people with "appropriate knowledge" who are not in government service; the recommendations emerging from the inquiry will not be published; but the conclusions drawn by the Government after reading them will be reported to Parliament in due course.

This could be the beginning of some very important developments, for good or for ill. The decision deserves to be debated. Probably, there are three fields that any inquiry of this sort should explore. First, there is the question whether amendments are needed in the mechanism whereby the Treasury and the spending departments should jointly strive to save candle-ends: whether, for example, there ought to be some central body of cost accountants and technical experts to check the wide disparities in the costs incurred by different departments in doing apparently very similar things (differences in the costs of erecting and heating buildings, of providing hostel accommodation, the apparently varying incidence of Parkinson's Law, and so forth). If the Government is seriously ready to tread on more toes in these matters, an internal committee of appropriately bloody-minded civil servants would probably be as good as any other body at suggesting the best mechanistic reforms. If the Government is not prepared to tread on toes, then suggestions put forward by any outside committee would not be accepted anyway.

Secondly, there is the awkward fact, as the White Paper notes, that "much of what the Treasury does in exercising financial control is dictated by the need for complying with the practices of Parliament itself." This is a polite way of saying that the present system of annual financial estimates presented to Parliament often helps to swell expenditure much more than to check it. Unhappily, the White Paper specifically shunts any inquiry away from this field by saying that it would be "inappropriate for the Government to ask for recommendations on Parliamentary practice from a body independent of Parliament." With this statement outside observers should flatly disagree. Nobody denies that Parliament must be sovereign in deciding what recommendations should be acted upon, but that is very different from giving it a veto over what recommendations should be put up.

Thirdly, and possibly most dangerously, the White Paper frankly recognizes that the Government's internal inquiry is likely to find itself making a review of the "Chancellor's conception of his own responsibilities" in personally checking expenditure. One's apprehension here is that the majority view of an internal government committee, heartily supported by the Chancellor himself, might well be that the Chancellor should be allowed to duck out of some of them. There is a growing feeling in some parts of Whitehall that the idea of the Chancellor as supreme financial watchdog is a bit of a farce, because decisions involving major increases in expenditure are necessarily taken by ministers collectively, and because departmental ministers are bound to know more about the case for particular spending plans than a busy Chancellor can ever do.

But, in any outside committee, there would be at least a strong minority group which would draw precisely the opposite conclusion from this; they would support what might be called the Thorneycroft conception of Treasury responsibility, and seek to make suggestions about how it could be made more effective in modern conditions. If it is true that political pressures for increased spending are likely to weigh more heavily nowadays upon the traditional constable of the national finances, they would say this seems to provide a better case for strengthening the powers of the constable than for weakening them. If a modern Chancellor is too busy with his new job of running the economy to perform his old job of watching public expenditure, that is not necessarily an argument for letting parts of the old job lapse; perhaps, rather, it is an argument for appointing a second Treasury minister, either junior or equal to the first minister, whose task it would not be to busy himself with economic policy, but to run something broadly equivalent to what is called in the United States "Bureau of the Budget." Surely it is a grave contingent disadvantage of a secret internal inquiry, drawing up a secret internal report, that decisions may be steamrollered through without any opportunity being offered for detailed minority views of this sort to be published, for informal outside opinion to start thinking and talking about.

CEYLON

Budget changes
The Financial Times, London, July 11, 1959, page 8 - From Colombo

Mr. S. de Zoysa, the Minister of Finance, announced that estimated expenditure in the 1959-60 Budget would amount to Rs. 1,736.4 million ($365 million) while revenue was estimated at Rs. 1,342.5 million. The Minister stated that he expected foreign aid in the amount of Rs. 125 million; Rs. 150 million would be raised by borrowing internally; and Rs. 50 million was to be derived from "other customary sources of finance." The remaining gap, he said, would be met by curtailing expenditure. Mr. de Zoysa also announced heavier taxes on liquor, gasoline, cars, and watches, larger duties on coconut exports, and other changes to bring in a net yield of Rs. 32 million.

New Governor for Central Bank of Ceylon
The Times, London, June 16, 1959, page 19

Mr. D. W. Rajapatirana, Senior Deputy Governor, has been appointed Governor of the Central Bank of Ceylon, it was officially announced. He will succeed Sir Arthur Ranasinha, who has been appointed Ceylon's Ambassador to Rome. For two years, from 1956 to 1958, Mr. Rajapatirana served on the Ceylonese Delegation to the United Nations.

MALAYA

Malaya eases dollar controls
The Times, London, July 14, 1959, page 5 - From Singapore

The Government of Singapore and the Federation of Malaya announced that restrictions on the direct import of dollar goods would cease as from August 1. Those goods which might now be imported freely from countries of the Organisation for European Economic Cooperation on open general license might also from then on be imported without specific licenses from the dollar area. The re-export of dollar goods would also be permitted from Singapore and Penang. It was stated that it would now be possible to import direct from the dollar area those goods which hitherto could only be imported through Hong Kong; this would help to reduce their cost by from 5-7 per cent. The removal of dollar import controls would enable dollar goods to compete on equal terms with non-dollar goods on the Malayan market.

FRANCE

French banks reorganize
The Times, London, July 10, 1959, page 10

The French banks are reorganizing their balance sheets to bring them more in line with reality. This step is being taken in preparation for the first public appearance of the new "heavy" franc in the middle of this month. The nationalized banks, all of which have decided to double their capital by capitalizing reserves, have led the way. Even after this operation, the totals will be modest enough. The Crédit Lyonnais, for example, which has raised its capital to 12 billion francs ($24.4 million) had a balance sheet total at the end of the year of over 800 billion francs: its 700 odd properties continue to stand in the books at 35 million francs, never having been revalued. An increase in the capital of the Bank of France is expected, while the Banque de Paris announced only recently a "rights" issue and a capitalization issue, designed together to increase the bank's capital from 6,500 million francs to over 11 billion.

Unlike the nationalized banks, the Banque de Paris (the leading French banque d'affaires), together with its rivals the Banque de l'Indochine and the Union Parisienne, have to conform to the new law requiring the publication of portfolios. The book values of these holdings are 12,400 million francs, 7,600 million francs, and 5,400 million francs, respectively, but at this year's annual meetings of the banks the chairmen have stated that the market value of the portfolios was in the region of three, four, and two and a half times these figures. An analysis of these holdings appeared to suggest that the Union Parisienne holds about half of its total portfolio of franc zone stocks in the form of oil issues, and the Banque de Paris almost as high a proportion in this way. On the other hand, the Banque de l'Indochine has the largest holding of foreign stocks, about 30 per cent of its portfolio at book values.

Monthly figures on French reserves
The Financial Times, London, July 6, 1959, page 1 - From Paris

The French Ministry of Finance has published the first of a monthly series of detailed figures of the French gold and dollar reserves. As of June 30, total reserves amounted to $1,633.8 million, of which $589.4 million represents the gold

reserves of the Bank of France, $342.6 million the Bank's foreign exchange reserves, and $701.8 million the holdings (gold and convertible foreign exchange) of the Exchange Stabilization Fund. These figures are stated to allow for foreign debt repayments, amounting to $66 million, which fell due on June 30 and July 1.

The new procedure represents a great improvement on previous French practice. The holdings of the Exchange Stabilization Fund have not normally been revealed; the other figures have been issued at irregular intervals and, on occasions when public finances were in difficulty, in such a way as to be highly misleading. In future, France should have monthly gold and currency holding reports similar to those for the Sterling Area.

FINLAND

Foreign exchange restrictions relaxed
Bank of Finland, Helsinki, Monthly Bulletin, May 1959, page 23

The Bank of Finland has announced certain relaxations in the regulations governing payments to foreign countries for various services and other "invisible" transactions. Beginning May 2, foreign exchange applications for specified transactions of this type need no longer be submitted to the Bank of Finland for advance approval; the authorized exchange banks are entitled to approve the transfer and to sell the foreign exchange required if the transaction conforms with the general instructions issued by the Bank of Finland. The new regulation covers transfers relating to advertising, membership fees, foreign currencies sold to emigrants, certain insurance and re-insurance payments, installation costs for machinery and equipment, repair and refining costs, ship repairs, agents' fees, etc.

BELGIAN CONGO

The biggest test in Africa
The Statist, London, June 27, 1959, pages 979-980

It is the function of the Congo to astonish the world, this time less by the extent and richness of its mineral resources than by the curious conflicts of opinion which are besetting the self-government promises made after the riots of last January. There is no doubt whatever about the need for granting self-government to the Congo; but there is a very acute difference of opinion as to the speed with which it can be done, and the consequences of doing it too quickly.

The subject of the dispute is a key territory, for the reason, among others, that it is a Big Business colony, in which more wealth is produced than in any other African territory, and in which that wealth is concentrated in far fewer ultimate hands than is the case anywhere in the world. It must inevitably have a big part to play in the future alignment of the world which sees the resources and the open spaces of Africa as the economic salvation of the overcrowded industrial countries of Europe.

The Congo has done wonders for the natives in terms of health, food, welfare, and well-being, but it has neglected their political education. All observers from the outside have commented with admiration on the success of the Belgians in training the native to fill posts of real industrial responsibility, and there is a real danger that the native may too easily conclude that he could easily run the whole

show unaided. This, of course, is the classical threat to established investment interests, and it is difficult to see any other main influence behind the clash in Belgium over the confirmation in office, or the replacement, of a Governor General who has proved himself a first class economic planner, whatever may have been his shortcomings otherwise. The real economic strength of the Congo, however, it must be remembered, lies not in individual planters and settlers, but in big mining firms and large-scale industrial plantations. It is obvious that these large companies are not going to sit by and see their investments subjected to a governmental machine which may regard them with hostility as foreigners. Even so, this is not the main point. It is one thing to safeguard existing vested interests, and quite another to ensure the future inflow of capital. One of the Congo's troubles is paradoxically that the colony was, for a time, independent of the need for getting capital from outside; and it is only within the last three years that the need for getting it has again become apparent.

This gives rise to a big problem. The Congo is at the beginning of its second ten-year development plan; and it is on the threshold of developing the staggeringly large hydro-electric resources of the Congo river, encouraging an industrial growth which will ultimately use the product of fully 25 million kilowatts of installed capacity. In other words, there are developments in prospect which will make the Congo of today look like a singularly elementary underdeveloped area, wealthy and productive though it is. The Belgians are finding this a most unhappy state of things. There is no way of continuing the development to which the system (and the natives) are accustomed, unless a big inflow of capital is available. The stage now appears to have been reached where the task of safeguarding existing investments runs counter to the task of inducing new ones. It is not till there is indeed a native Government and till that Government has given earnest of its good intentions towards new investors, that the first steps will have been taken in setting up the new structure of creditworthiness.

The importance of the Congo lies in the fact that it is so central, and that it is by far the biggest and wealthiest non-French territory embraced in the Eurafrica policy of the Common Market nations. It is clearly envisaged that these territories should become part of the structure of the Rome Treaty, but there have been marked differences of view between France and the other nations of the Rome Treaty as to how this is to come about.

COMMUNIST CHINA

China's harvest hit by weather
The Financial Times, London, July 7, 1959, page 5 - From Hong Kong

Communist China is now faced with a serious food crisis as a result of the widespread damage to its early crops caused by natural calamities. Floods, drought, hailstones, and insect pests have apparently shattered its agricultural hopes set for the second year of the "great leap forward." This has occurred only two months after Mr. Chou-en-Lai's announcement of the 1959 Plan for developing the national economy. The plan centers on four chief targets: 18 million tons of steel, 380 million tons of coal, 525 million tons of grain, and 5 million tons of cotton. Western observers believe that as agriculture is basic to China's economy, the present natural disasters may undermine its international trading position. It may still be too early to ascertain the extent of total damage, but Peking's official preliminary statistics show that about two million acres of farmland were inundated. Crops ruined by floods include groundnut, sugar, and rice.

ECUADOR

Economy - Inducements to foreign investors
Bank of London & South America, London, Fortnightly Review, June 20, 1959, p. 584

A study published by the Banco Central outlines the attractions Ecuador offers to the foreign investor. Expropriation is unknown in the country and foreign property enjoys the same guarantees as Ecuadorean investments. Moreover, the earnings of capital registered at the Banco Central may be remitted abroad at any time at the official rate of exchange, up to a percentage (never less than 12 per cent) fixed by the Junta Monetaria. This, together with the country's monetary stability, as evidenced by the approximately constant internal and external purchasing power of the sucre, and the low cost of labor, has attracted more foreign investors to Ecuador during the last two years than in any previous period of the country's history. Taxation is not discriminatory and the highest rate, which applies to incomes of over 200,000 sucres ($13,333), is 22 per cent. There are also regulations granting special privileges for the encouragement of investments in certain areas of the country.

INTERNATIONAL COOPERATION

French West African Customs union
The Times, London, June 10, 1959, page 8 - From Paris

The seven former territories of French West Africa, which are now member States of the French Community -- Senegal, French Sudan, the Ivory Coast, Upper Volta, Niger, Dahomey, and Mauritania -- decided in Paris to form a Customs union. They also agreed on the way in which the installations and property of the former colonial administration should be divided among them. It is hoped that the Customs union will be a success and will be followed by other agreements.

SHORT NOTES ON CURRENT ARTICLES

Another bank reform in Australia - By H. W. Arndt

The Canadian Banker, Toronto, Vol. 66, No. 2, Summer 1959, pages 107-115. The author, who is Professor of Economics at Canberra University, discusses the recently enacted banking law. He emphasizes three points: 1) The central bank is now completely separated from its former trading and savings bank operations. 2) These operations have been reconstituted in a new Commonwealth Banking Corporation. 3) They also replace the former "special accounts" system under central bank control by a new system of variable reserve ratios. Professor Arndt explains the significance of these changes by reviewing the political history of Australian banking. He believes that the new law is "unlikely to do much harm and may do some good." Besides, it does introduce a number of useful minor reforms and, it is hoped, will still political fights over banking for many years to come.

Banking legislation in Norway

Norges Bank, Oslo, Bulletin (Quarterly) No. 2, 1959, pages 40-42. This article reviews briefly the changes proposed by the Monetary and Banking Commission and submitted in a report on new banking legislation for savings and commercial banks. The report is now being studied by the authorities.

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WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Halcyon days
The Economist, London, July 11, 1959, pages 73-74

The first half of 1959 has ended with the British economy apparently in very good shape indeed. How far does the recent improvement represent a genuine advance towards solving this country's basic economic problems, and how far is it merely a temporary respite? Three main economic problems have bedevilled Britain since the war; all are intermingled but all are in some degree capable of separate analysis. They are the foreign balance; the problem of internal pressure upon resources; and price inflation.

Of these, the problem of the Sterling Area's foreign balance is most obviously dormant for the short term, but also most obviously unresolved for the long term. The situation looks almost magically easier than usual at the moment because the terms of trade are currently very favorable to Britain, while the prices even of some commodities produced by the overseas Sterling Area happen to have recovered from recession more abruptly than the prices of most dollar commodities have yet done. But a deterioration of only 4 or 5 per cent in the whole Sterling Area's terms of trade would cost some £ 200 million a year and be likely to plunge the whole Area back into deficit. Clearly a deterioration of that order is very likely to happen some time; one can say that without assuming the prophet's mantle

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and pretending to forecast when. When it does happen -- or when the electoral or other considerations cause increased uneasiness about the pound -- is there any reason why the speculative tide against sterling should not sweep as abruptly up the beach as it did in 1957? There are now no effective dams to prevent foreigners switching out of sterling if they want to; that is a consequence partly of the advance to convertibility last December, but also, much more largely, of the de facto situation which convertibility was designed to recognize.

In the end, sterling's ability to avoid another crisis will depend not so much on the accretions of strength that it has enjoyed during the current respite -- although some of these, particularly the growth of our international reserves, especially second line reserves, and Britain's own improved balance with North America, are not unimportant -- as on whether those in charge of Britain's finances have learned the real lesson of 1957. This was that foreigners will hold sterling only if it is profitable for them to do so. The prerequisite that makes it profitable is that the interest differential that can be earned on sterling holdings must outweigh any nervousness about sterling's possible future devaluation, as expressed in the discount on the floating forward sterling rate. Very broadly, the question of whether Britain has learned how to avoid new-fangled crises of the 1949 and 1957 ilk depends on whether it has at last overcome its new-fangled repugnance to go promptly, at the first sign of trouble, to high Bank rates.

On the second major problem -- the question of what is the right level of internal demand to afford -- Britain should also have learned some lessons in the last few years. It used to be the fashion to suppose that there was only a very narrow dividing line of march between the primrose path (the wild excess of demand which precipitated Britain into a £ 1200 million external deficit in 1951) and the waste land (the mass unemployment of the thirties). The way between looks much broader, although perhaps a bit muddier, now. On the one hand, Britain itself has avoided a balance of payments deficit for eight successive years; on the other, the Government has kept demand below maximum productive capacity for the last three years without ever running into more than 3 per cent unemployment at the seasonal peak. But it has not proved as simple as had once been expected to restimulate demand; Mr. Macmillan's dictum of 1956, that turning off the taps was difficult but turning them on again would be easy, has not proved true.

The long-term moral may be that tax and fiscal policies, which exert the most direct effect upon demand, should normally be designed to keep the economy running a little further from the waste land than they sought to do in 1956-58. But the immediate rider, which the Labor Party and other critics of the last three Chancellors so often wilfully fail to see, is that this can be done only if there is at the same time sterner reliance on other weapons -- on interest rate policy and less inflationary wage arbitration procedures -- to keep the country away from the rocks of foreign currency crises and continual price increases. If American interest rates continue to rise and if there is some reaction against sterling as the election draws near, an example might soon appear.

On the third front -- price inflation -- these also seem to be halcyon days. After twenty years of constantly rising prices the cost of living has now been stable for twelve months, and very nearly stable for eighteen. In part, this has been the result of running the economy nearer to the waste land; some people will say that this alone has made the waste worthwhile. But it has also been the result of two other factors. First, the idea has slowly begun to percolate among British manufacturers that price competition is respectable. The new ethos has

shown itself at home in some breaches in individual resale price maintenance and in the judgments of the new Restrictive Trade Practices Court. More surprisingly, it has even begun to catch hold again in relation to price competition from abroad; the growth of freer trade doctrines has been one of the great developments of this Parliament. Secondly, there have been some -- though still far too small -- advances towards recognizing that inflation through emollient wage arbitration is one of the biggest dangers to this country.

There can be dispute how far these two advances towards economic common sense in the fields of prices and wages seem likely to be maintained; the second of them, the recognition that it is unprofitable to run away from strikes, would almost certainly receive a setback on the accession of a Labor government. But it is only to the extent that they are maintained, and to the extent that the right lessons have been learned about Bank Rate policy and demand restraint, that the present golden summer can hope to be counted as the end of the long period of recurrent crises and persistent price inflation, rather than merely as another very temporary respite in the middle of it.

NEW ZEALAND

Income tax cut in New Zealand's Budget
The Times, London, July 10, 1959, p. 10 - From **Wellington**

Mr. Nordmeyer, the New Zealand Finance Minister, presented a cautiously optimistic Budget in the House of Representatives. He provided for reductions in income tax valued at £ 17 million in a full year but introduced in two stages, the first from October 1 this year and the second from April 1, 1960. No reductions were proposed in other types of taxes, which were heavily increased by the previous Budget. "Faced with the choice of making small reductions over a wide field or worth-while reductions in one field, I have decided the best course is to leave the maximum possible amount of wages, salary, or other income in the hands of the taxpayer," the Minister said.

The reductions had been made possible by the improved position of the economy and in particular by the increased prices now being received for exports, and they were designed to increase purchasing power as more goods and services became available. The tax adjustments were, however, possible only because more than £ 10 million of defense expenditure was being financed out of the defense fund instead of current taxation.

Surveying the general position, Mr. Nordmeyer said New Zealand was now passing through a period of readjustment and recovery after living beyond its income for years. Although the export price prospects were much brighter than a year ago, it would be unrealistic to base plans for the future on the assumption that the prices of some of the country's main exports would speedily return to, and remain at, the higher levels of the past. He outlined plans to attract oversea capital for investment in national development and to encourage domestic savings by raising to £ 10,000 the limit of interest-bearing accounts in the Post Office savings bank, Post Office investment accounts, and National Savings accounts.

The Consolidated Fund receipts for 1959-60 were estimated at £ 317,400,000 ($883.8 million) with a surplus of £ 100,000. The Social Security Fund expenditure was estimated at £ 104,800,000, and a capital development program was

proposed to a value of £ 85 million. Mr. Nordmeyer stated that the credit of £ 10 million arranged with the Midland Bank had not been used and was still available; and that the credit of £ 4,100,000 arranged with a New York banking group would be repaid on September 30.

FRANCE

Start on fiscal reform
The Economist, London, July 11, 1959, pages 79-80

The French Government is now considering a group of measures which mark a second phase in its economic reform program. At the turn of the year tax changes cut back the Budget deficit and helped to give the new franc a period of stability. Now the Government is preparing to make a start on the appalling structural problems of the tax system. If present proposals go through, the "local tax", an irritating purchase tax collected by the small shopkeeper, which is a standing invitation to evasion, would go; instead, the tax on "added value", an intellectually satisfying form of turnover tax, would be applied more widely. Income tax would be simplified into a single tax; an early cut in rates would reduce the incentives for evasion and thus facilitate further cuts later. A third smaller, but valuable, reform would affect company finances; tax remittances previously allowed against appreciation in the value of stocks in time of inflation are to go, instead, remodelled depreciation allowances are to be introduced as an incentive to fixed industrial investment. One final change, however, a cut in inheritance taxes, bears no relation to the proper objective of tax reform in France (to switch the burden from indirect to direct taxation); this change indeed seems to go in the opposite direction.

The proposed reforms are only a beginning. Many years of effort may be required before direct taxes are made equitable and effective. And taxation is not the only sector where the pruning knife is needed. A tangle of restrictive practices in distribution has still to be cut through. M. Rueff, the intellectual father of the reforms of last December, has lately called attention to the fact that the bank cartel inhibits the operation of any effective monetary policy.

In economic affairs the Government has been lucky since it turned over the new leaf last December; and perhaps it has deserved some of its luck. The small scale of price increases since the beginning of the year is in part the result of good weather, which has kept food prices down; but it is also a tribute to the policy of freeing imports which has helped to keep down industrial prices. But price stability has hitherto been achieved during a domestic recession. Private investment in industry has ebbed. With the Algerian war still a burden on the economy, the unanswered economic question for France is whether it can combine stability with renewed expansion.

SWITZERLAND

Economic conditions and trends
Neue Zürcher Zeitung, Zürich, June 21, 1959, section 11 (in German)

At a recent meeting of the Board of Directors of the Swiss National Bank the President of the Bank, Dr. W. Schwegler, gave a report on the present financial and economic position of the country.

He stated that the Swiss economy showed definite signs of revival. Building activity showed a considerable increase in the first quarter of the year and since then has risen significantly within the framework of a planned program calling for an outlay of 5.1 billion Swiss francs ($1.2 billion). It is expected that public and private building activity will continue to require ever larger investment funds. Industrial production, despite a rise in exports, did not register any improvement until spring; investment in this sector of the economy is proceeding rather slowly.

On the domestic money and capital markets the continuing liquidity of the last two years has come to a stop for the moment, Dr. Schwegler stated. Last February 15 the sight liabilities of the Swiss National Bank reached 3,550.5 million francs, an all-time high. Since then there has been a considerable outflow of funds abroad which is reflected in a drop of 439 million Swiss francs in the gold and foreign exchange reserves of the National Bank from 9,156.7 million francs in mid-January to 8,717.4 million in mid-June. The surplus in the balance of current accounts, which is estimated to be considerable, has been more than balanced by a deficit on capital account. This is in part the result of the convertibility measures taken by a number of countries at the end of 1958, which facilitated international capital and payments movements, allowed a freer development of investment activity, and resulted in a greater capital outflow from Switzerland. In part this greater outflow was also attracted by a considerably higher interest rate level abroad. The changed climate on Swiss markets found its expression in a tightening of interest rates.

Dr. Schwegler explained that the existing abundance of funds on the Swiss markets is conducive to an expansion in economic activity. But there is also the inherent danger that an expansionary trend may become excessive as in 1955 and 1956. Speculation, which is ever pushing up stock and real estate prices, is an unfailing indication of this trend. The change in market conditions and the slight increase in some of the interest rates are to serve as a warning to the credit institutions not to go too far in granting credits, but to maintain a high liquidity in order to be able to meet without difficulty the large credit demands in the next few months. It may be expected that the credit institutions, in view of their experience in the past years, will utilize the funds at their disposal with great perspicacity and will use restraint particularly in the financing of credits for the building industry, whenever it seems desirable to avoid excesses. In this manner and in the interest of a healthy economic growth new exaggerated demands on all economic forces and a boom period can be avoided. The National Bank, Dr. Schwegler said, will continue to oppose every unwholesome expansionary trend by a restrictive monetary policy and control of the market liquidity.

SPAIN

Spanish economy - Opening the door
The Economist, London, July 25, 1959, page 206
The Times, London, July 21, 1959, page 5 and July 22, page 5

The long-awaited rescue operation for the Spanish peseta was characterized by a devaluation of the peseta, effective July 18, and Spain's entry into the Organisation for European Economic Cooperation on July 20. The value of the peseta was changed from 42 pesetas per dollar to 60 pesetas. This rate is close to that which lately prevailed in free markets.

The devaluation is flanked, as expected, by substantial foreign credits, reported to amount to about $375 million. The OEEC will make available credits of $100 million, and the International Monetary Fund $75 million. An amount of some $70 million will be forthcoming from private banks in the United States, and the remainder comprises regular items of United States aid.

Spain's move into OEEC is obviously welcome on economic grounds. More than two decades of economic isolation have left something like economic petrifaction in some sectors of the economy. Some still follow a mediaeval pattern. Even the new industries are gripped by the paralyzing fiscal and legislative arrangements of General Franco's corporative state. Inflation has been persistent. The fresh wind of competition from abroad will not solve Spain's economic problems, but it will clean out some cobwebs, political and social, as well as economic. The tourists who have been coming to Spain in the last few years have caused a lot of new questions to be asked. More foreign trade is bound to push the process further.

It has been announced that under the "stabilization plan," a "substantial percentage" of Spanish imports will be immediately liberalized, chiefly raw materials and spare parts. Restrictions affecting tourism, the repatriation of capital, and foreign investments in Spain are to be removed and measures are to be adopted to curtail public and private demands in order to eliminate "inflationary pressures".

IRAQ

Closer ties with Communists
The Financial Times, London, July 7, 1959, page 5

Dr. Ibrahim Kubbah, the Marxist Iraqi Minister of Economy, is pursuing his efforts to increase Iraq's ties with the Communist world. In a statement to a correspondent of Baghdad Radio he has made it clear that his Ministry's chief aim is the industrialization of Iraq through the purchase of fully-equipped factories from these countries. Payment will be made in medium-range instalments, but Poland, Czechoslovakia, and East Germany have offered to accept part of the price in the form of Iraqi products, such as cereals and dates. Poland also recently made an offer to buy some Iraqi crude oil.

The Prime Minister, Abdul Karim Kassem, told the Iraqi Federation of Industries in May that the Government would do everything to protect the infant industries, and Dr. Kubbah hopes to create enough confidence in this sector of the Iraqi economy to attract private capital. He indicated two main lines for building consumer goods industries in Iraq.

The first line follows the precedent of the Iraqi-Soviet agreement whereby the Iraqi Government buys the producing factories abroad and then sells them to a private company. The other method is for the Government to buy shares in a company which would then undertake the construction of the factory. Dr. Kubbah affirmed that a number of businessmen had proposed to the Ministry of Economy the formation of such a company to which the Government would subscribe 40 per cent of the shares through the Industrial Bank. They suggested that the Government should underwrite a minimum profit of not more than two or three per cent of the capital invested. Dr. Kubbah emphasized that with the measure taken by the Government to encourage and protect the industries, the rate of profit would

certainly be higher than this and therefore the Government's guarantee is "moral rather than material."

He added that the mere establishment of factories, with the participation of holders of national capital, would help to revive and consolidate confidence in the general economic situation. This would lead to the introduction into Iraq of foreign, and especially Arab, capital. When Dr. Kubbah referred to capital from Arab countries outside Iraq, he can only have been thinking of Saudi Arabia and the Persian Gulf states, especially Kuwait. They are the only Arab countries which might have spare capital to invest in Iraq. However, it is clear that non-Iraqi Arabs will not invest any large sums in Iraq until not only the economic, but also the political, situation is much more stable.

URUGUAY

Economic development
Bank of London & South America, London, Fortnightly Review, July 4, 1959, page 625

On June 11 a plan for the economic development of the country and for maintaining the value of the currency was presented to the National Government Council by one of its members, Señor Eduardo Víctor Haedo. The plan, which is largely a statement of general economic objectives, calls for a vigorous public works program, the re-equipment and expansion of the country's various economic sectors, an increase in production (both industrial and agricultural), and a strengthening of credit facilities, including an increase in the capital of the Banco de la República.

The financing of the plan is to be undertaken from national resources and, it is hoped, from the international lending agencies, such as the International Monetary Fund, the Export-Import Bank, the United States Development Loan Fund, and other foreign sources. The public works program includes the construction of houses, road and rail improvement, school buildings, and improvements to ports and airports. The plan also proposes the establishment of a special committee to coordinate the economic activities of the central government, the departmental authorities, and the autonomous services.

CANADA

How much boom? - The outlook - By Dalton Robertson
The Financial Post, Toronto, July 11, 1959, pages 1 and 8

The Financial Post has been publishing a series of articles on the economic prospects in Canada (see also Weekly Review of Periodicals, June 26, 1959, p. 7). The following article presents data and expert opinion on the economic weather ahead.

In both Canada and the United States, business and government can expect to have to cope with another recession starting early in 1961. That is a long-term forecast heard more and more often from experts in the North American business cycle. It gives the economy another 18 months or so of expansion before the crest of the boom is reached -- and breaks.

Specialists in business trends on both sides of the border believe that the first third of the present expansion is over. And judging from its characteristics

the current period of growth will be in total about 30 to 32 months long, a fair average when compared with prewar and postwar expansions.

In Canada, recent expansion has been rapid. Industrial production has advanced some 10 per cent from its recession trough. Gross national product rose by 6 per cent between early 1958 and early 1959. Retail trade, reflecting rising incomes, is currently 5 to 6 per cent higher than a year ago. Unemployment is now a smaller proportion of the labor force than a year ago; even at mid-May, when the latest figures were published, it was down to 5.4 per cent as against 6 per cent a year ago.

But the prospects now are for a slower rate of growth in the months ahead, although Gross National Product, which is a very broad gauge of activity and not one which anticipates trends, will probably continue to turn in a good performance. It has been pointed out that GNP will probably continue to rise by 2 per cent a quarter in response to some price increases and further growth in the service industries which are not entirely represented in other indicators. Then, if past experience is a guide, there should be a burst of accelerating activity, perhaps in mid-1960, which will carry the boom to its peak.

Inventory build-up and consumer spending are the main props of the current phase of growth and will likely continue to be the major contributors to Canadian expansion this year. Housing outlays will drop off, unless the market for mortgage money gets an injection from Ottawa, but this decline, in part anyway, will be set off by rising capital outlays on new plant and new equipment.

Government spending, a big sustaining factor in the recession, will be a relatively less expansive force in the months ahead as the private sector of the economy begins to force the pace. However, government purchases will be more important in Canada than in the United States, if for no other reason than the fact that Ottawa has managed to postpone as many outlays as possible until its revenue picture brightened. Note, for example, spending on aircraft.

Much the same slowdown in growth rates can be expected in the United States. Fortune, for example, notes that GNP in the United States has risen by 10 per cent or so in the past year, but estimates that it will rise only another 6 per cent in the next 18 months. And United States industrial production which, according to the Federal Reserve Board index, advanced by 18 per cent since mid-1958, will only go up another 5 per cent or so by the end of 1960, it is predicted.

In both countries, business analysts are counting on capital investment to be the new and dominant factor making for continued expansion. If this capital spending boom does not materialize, the present economic expansion may well be less than the anticipated 30 or so months. Indications are, however, that the spending spurt on new facilities will take place on both sides of the border. In the United States, there has been only a slow recovery in business outlays since fall 1958, but it is expected that the gains over the next 18 months will be very substantial, perhaps in the order of 20 per cent. In Canada, the Government's mid-year survey of business' spending plans show that upward revisions are being made from expectations of six months ago.

If capital spending prospects are realized in both countries, the next 18 months should see sturdy, steady growth across a broad front -- with certain export industries being the exception. Due to this expansion, and buttressing it, will be rising consumer incomes and rising consumer spending.

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WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

Prospects for sterling in the fall
The Times, London, July 20, 1959, page 9

Although by tradition sterling should now be entering its worst season, it continues to show a remarkable power of resistance. At this time two years ago it had already dropped below $2.79 and was rapidly nearing the lower support point. A year ago, when the country's payments surplus was at its highest level for decades, the pound was quoted only a shade over $2.80. Today it still remains firmly entrenched over $2.81.

This strength has been maintained in the face of several adverse factors. As early as the first week in May a number of Continental banks (including leading Swiss banks) began to sell sterling in anticipation of the usual seasonal weakness; with the rise in American interest rates the direction of international interest arbitrage has changed from London to New York; and in the past fortnight talk of a possible election in October has not passed unnoticed in the financial centers of Europe. Yet, apart from the decline in the security sterling rate, the official pound rates have remained entirely unruffled. Why?

1959
UNIVERSITY OF ILLINOIS

The decline in the strength of the dollar has been a factor; but it is only part of the story, for much more fundamental factors have been at work. One is the direct result of the move to convertibility last December. The others are based on changes in the seasonal pattern of payments, affecting the whole Sterling Area. The formal change-over to non-resident convertibility has brought several advantages in its wake that the previous de facto convertibility was unable to produce. By the disappearance of transferable sterling the Continental exchange markets have been reduced in size, while London's market has correspondingly grown. Since early this year nearly all foreign exchange transactions over £ 500,000 have had to make use of the London market because in the narrower markets elsewhere they would have moved the rates too much. As a result, sterling has become more of an international reserve currency than it used to be.

This does not mean that sterling cannot come under pressure for seasonal reasons. It is probably easier for this to take place now than previously and, with the approach of the election, the usual "leads and lags" may begin to affect the rate. But there is no reason to take a particularly serious view of this prospect, even if the election takes place in the fall. There are grounds for believing that the seasonal pattern has changed somewhat in recent years and it is significant that the Swiss Neue Zürcher Zeitung, which has considerable influence on the Continent, came to much the same conclusion earlier this month. The traditional pressure on sterling in the late summer and fall was based on the coincidence of a decline in sterling commodity earnings with heavy seasonal expenditure by tourists and with growing imports of oil, tobacco, and certain bulk foodstuffs. The seasonal contraction in sterling commodity earnings remains much as it was, but even this has been modified this year — by higher sales of some minerals, especially tin, and by a recovery in prices. On top of this the prices of dollar commodities (which the United Kingdom is forced to import in volume) have not recovered nearly so much as sterling prices.

The three basic changes in the seasonal pattern, however, are far more important. In the first place, although spending on foreign travel has grown sharply in recent years and reached a new record last year, income from foreign visitors has expanded even more sharply. In 1958 the actual debit on travel was down to £ 15 million, compared with an annual average of £ 35 million between 1947 and 1951, and if fares paid by foreign visitors to British carriers (£ 57 million in 1958) are taken into account, foreign travel can now be regarded as a sizable credit item. As much as two-fifths of all the United Kingdom's income from foreign visitors is in United States dollars.

Secondly, oil, which traditionally used to be the cause of our heaviest dollar payments at this time of the year, has now become one of the main credit items among "invisible" receipts. Thirdly, the growth in British exports has also altered the seasonal deficit of the whole of the Sterling Area. Last year, for example, United Kingdom exports covered 48.2 per cent of all exports from the Sterling Area, compared with 46 per cent in 1957 and 44.8 per cent in 1954; and these figures do not include the new and substantial increase in the first half of this year. The trading deficit of the Sterling Area in the third quarter, therefore, has gradually been reduced by the growth of £ 581 million in United Kingdom exports over the past five years, including a doubling of shipments to the United States. Thus, although seasonal pressures can still build up in the third quarter, and no doubt will do so again this year, they need not be regarded as the omens of disaster that they used to be.

INDIA

Decrease in national income in 1957-58
Neue Zürcher Zeitung, Zürich, June 24, 1959, section 11 (in German)

In 1957-58 national income in India, after a continuous rise since 1949-50, registered a decrease (at constant 1948-49 prices). Total income, which is estimated at 108.3 billion rupees ($22.7 billion), fell by 1.5 per cent as compared with the previous year. Moreover, when the increase in population is taken into consideration, the drop is 2.8 per cent per capita. From 1951-56, during the first Five-Year Plan, national income rose by 18.4 per cent, or by a yearly average of 3.7 per cent. In 1956-57, the first year of the current Second Five-Year Plan, India's national income rose by 5 per cent, an encouraging sign. But it is surprising that there was a contraction of 1.5 per cent, after six years of planning and rising outlays for development. The reason for this decline can only be attributed to a sharp drop in agricultural production. This fact ought to serve the planners in India as a warning to pay more attention in future to the agricultural sector of the economy.

An analysis of the various components of national income indicates that the rate of increase in non-agricultural industries was uniform; the rate of growth in commerce and transport and other services was the most rapid. The rate of increase in industrial production, however, has been slowing up during the last two years because of a decrease in cotton production and a drop in raw material imports resulting from foreign exchange difficulties. In view of the continuous influx of foreign aid and the steady rise in the industrial capacity under the Second Five-Year Plan, an acceleration in the industrial rate of growth is expected to begin next year.

The prospects for agriculture, however, are less favorable. In the last ten years the average rate of increase in cereal production was 2.5 per cent per annum; but this is a far cry from self-sufficiency in food. Considering a yearly increase in the population of 5 per cent, and the desire to improve nutrition and build up certain reserves for bad crop years, the increase in production should amount to 8 per cent. Moreover, an increment in the cotton and oilseed production is urgently needed if the rising demand of industry is to be satisfied and if there is something to be left for exports.

Although the Indian Government has been showing a readiness to encourage agricultural production, their efforts have been inadequate or they have been influenced too much by political considerations. Prosperity in the agricultural sector, in which 70 per cent of the population are occupied, still depends on many intangible factors, the most important of which is the weather. The good crops in 1956-57, which resulted in a 5 per cent rise in national income, are attributable, first of all, to sufficient rainfall in that year. In 1957-58 irregular precipitation resulted in a decrease in crop yields. As a result, national income not only decreased by 1.5 per cent, but there was also a sharp rise in the inflationary trend. This year's prospects for rice and cereals are promising, so that there are expectations of a rise of from 5-6 per cent in national income as compared with last year. The solution to the Indian problem of nutrition, however, does not depend entirely on favorable weather conditions. In order to assure a steady growth in national income and in order to check the inflationary trends in the economy, agriculture must be given top priority under the Third Five-Year Plan (1961-65).

Prime Minister Nehru recently pointed out that under the Third Five-Year Plan the rate of growth in the agricultural sector would have to show an increase of at least 6 per cent: 2 per cent to keep pace with the rate of increase in population, 2 per cent to satisfy at least the essential demands of the population, and 2 per cent for further investment. Mr. Nehru did not dispute that this would be a difficult task to achieve, but he also warned that a lower rate of growth would mean a deterioration in the Indian economy. In view of the difficulties which the Second Five-Year Plan encountered it is to be hoped that the Third Five-Year Plan will be based on a realistic appraisal of the available resources of the country.

PAKISTAN

Pakistan creates a solid economic basis
Deutsche Bundesbank, Frankfurt a/M., Press Reviews, July 17, 1959, page 8 (in German)

Economic developments in Pakistan since the revolution in 1958 have made it possible to plan a Budget for 1959-60 which envisages a surplus of 70 million rupees. The new Budget is based on an increase in industrial production and on the fact that inflation has been checked, prices have been lowered, and gold and foreign exchange reserves have been increased considerably. The Minister of Finance, Mr. Shoaib, estimates income at 1.54 billion rupees ($323.4 million) and expenditure at 1.51 billion. The introduction of new levies in the amount of 43.7 million rupees is expected to bring the surplus to a total of 70 million.

The Finance Minister explained that the authorities were planning a gradual reduction in customs duties and in direct taxes in order to create more freedom in the economy as well as possibilities for individual development. Production is to be pushed to a maximum in an effort to meet domestic demand and at the same time create sufficient export goods. Since indirect taxes are to be extended it is also hoped that domestic and foreign investment capital will be attracted to Pakistan. Moreover, it is expected that these measures will lead to a rationalization and simplification of the tax system.

The Budget has been called a realistic one in interested circles, and satisfaction has been expressed with the other measures, particularly the lowering of customs duties and the liberalization of imports. It is hoped that these measures will lead to a widening of export possibilities, result in an increase in foreign exchange holdings which, in turn, would provide the means for enlarged imports. There is a belief that the trend in economic development in Pakistan is pointing upward and that there is reason for guarded optimism.

FINLAND

Foreign exchange policy
Deutsche Bundesbank, Frankfurt a/M., Press Reviews, July 22, 1959, page 10

Dr. Klaus Waris, Governor of the Bank of Finland, has elucidated the new foreign exchange regulations which became effective July 1. The right of non-residents to open freely convertible accounts at Finnish foreign exchange banks has been considerably extended. Funds in these accounts can be converted into any other currency. Finnish importers are free to choose the currency in which they wish to pay for imported goods and services or settle other foreign exchange commitments abroad. Goods imported from West Germany, for example, may be paid for in sterling, dollars, or

any other convertible currency. These relaxations, however, do not apply to so-called bilateral accounts and blocked balances.

Last March the travel allowance was doubled. The present maxima for each journey are 40,000 Finnish markkaa for travel to the Scandinavian countries and 80,000 for travel to other countries. Moreover, the Bank of Finland has power in special circumstances to grant an extra allowance. Travelers anywhere in the convertible currency area may freely choose the currencies in which they wish to take the allowance. Thanks to this increase in travel exchange allowances, the supply of Finnish notes abroad has fallen appreciably and the rate has hardened considerably in recent weeks.

In May the foreign exchange application procedure was simplified by giving banks the power in certain circumstances to approve transfers of foreign exchange abroad without first obtaining the approval of the Bank of Finland. All these changes have removed most of the restrictions which, a few years ago, kept Finland well behind most other western European countries as regards the right to dispose freely of foreign exchange. Dr. Waris expects further progress in the elimination of the differences in foreign exchange control between Finland and other countries with respect to current payments. So far as capital transfers are concerned, however, for some time to come Finland must obviously follow a more cautious course than, for example, the Scandinavian countries.

NORWAY

World Bank advance to Norway
The Times, London, July 9, 1959, page 10

The World Bank has approved a loan equivalent to $20 million for the further development of electric power in Norway. This will be the fourth World Bank loan made available to Norway, and the second providing for the development of electric power. Each of the three earlier loans was for $25 million. But if this loan is smaller than the earlier ones, it is also the most expensive. On this occasion Norway is paying 6 per cent interest for 25 years; the interest rate on each of the first three loans was 4-3/4 per cent.

Norway has traditionally depended to a large extent on foreign loans to finance its capital needs, and the first two World Bank loans were themselves associated with the raising of funds from commercial sources. This is also the case, indirectly, with the current loan. The World Bank is providing only part of the funds needed for the power projects being developed. Some of the remainder of the finance is being provided by an internal bank loan which itself is being associated with a Norwegian Government loan equivalent to $12 million, which is being raised via two bond issues in Sweden.

SWITZERLAND

Loans to Common Market countries still banned
The Times, London, July 9, 1959, page 10

The Swiss ban on loans to Common Market countries looks like being maintained for another six months at least. The Swiss banks recently asked the authorities to discontinue this ban; but a recent meeting of representatives of the Federal

departments of economics and finance did not indicate that any early change in the official attitude was likely. It was made clear that access to the Swiss capital market was still held to be dependent on the willingness of the Common Market countries to join in a multilateral association with the rest of the members of the Organisation of European Economic Cooperation. A request by the bankers for this question to be discussed again in the fall has been refused.

HUNGARY

Hungary after the big leap forward
The Economist, London, July 18, 1959, pages 165-166

Having completed the "big leap toward Socialism," the Hungarian Communist regime has now landed on solid earth with something of a thud. It has not really lost its balance, but neither is it quite sure where to turn now. The essence of the big leap was the amazingly violent and correspondingly effective collectivization campaign of the last few months. Before the campaign, barely one-sixth of the country's arable area was State- or collectively-owned. At the recent conclusion of the campaign it was triumphantly announced that the proportion had risen to 50.5 per cent: Socialism had gained an absolute majority.

It is believed that the State security organs took the bit between their teeth and leapt farther than the political committee really expected them to; hence the spectacular result of the relatively short collectivization campaign. Mr. Kadar is believed to be pleased enough with it, particularly with the magic 50.5 per cent which has, as it were, carried his cause over the hump. But he is said to be a bit worried about certain repercussions. For one thing, the State security organs jumped rather too eagerly at the chance of being tough, and displayed rather too much independent initiative. For another thing, the despair and despondency generated by the campaign has not remained confined to the countryside. It has spread to the urban population just when the Party was hoping that public opinion was getting reconciled to the inexorable facts of life.

If large-scale land collectivization is not to remain a farce, something will have to be done rapidly to equip the new collective farms with buildings and machinery. This urgent need comes at a time when the régime is politically and otherwise ill-placed to embark on such highly capital-intensive developments. Squeezing resources for investment out of the economy by depressing the standard of living would infringe the newly-discovered dogma, attributed to Mr. Khrushchev himself, that such a course is the cause of counter-revolutions. Besides, by next year the balance of payments must swing into surplus to enable Hungary to begin repayments of the 1957 Soviet loan. Investment in the current three-year plan is in fact largely directed to industries (engineering, telecommunications, diesel traction equipment), for whose products Soviet import demand has been indicated. The absolute volume of investment has only just reached that of the "soft" year of 1954, and is well below the rate maintained in the heroic 1950-52 period. Besides, obsolescence and the past neglect of maintenance are beginning to tell on industrial productivity. Mr. Jeno Fock, the economic expert in the political committee, ruefully admitted that, with the existing rate of investment, the technological level can at best be held and cannot rise.

Consolation is found in thoughts of the 1961-65 five-year plan. This envisages great expansion in chemicals and engineering and, surprisingly, none in coal and

basic steel. Apparently, the Soviet promise of a pipeline from the Georgian oil-fields to Hungary, and of an East European power grid, are being taken seriously. Should they materialize, the energy-starved Hungarian economy might start to outgrow the Procrustean bed of autarchy into which the first five-year plan had forced it.

GHANA

Ghana move for more foreign investors
The Times, London, July 3, 1959, page 6 - From Accra

Mr. Gbedemah, the Ghana Minister of Finance, in introducing the Budget, announced a number of concessions designed to attract foreign investors. He also announced increased duties on beer and wine, automobile tires and tubes, and jewelry, as well as increases in charges for electricity and in postal rates.

He said that Ghana's balance of trade, instead of showing a deficit as it did last year, produced a surplus of £ 11 million. This change was a result of the better price received for cocoa exports, although the crop was smaller, and from a notable reduction in imports, especially textiles and food.

Among the inducements to foreign investors is an alteration in the provisions for pioneer companies whereby instead of having a "tax holiday" for a fixed number of years, as at present, they will be given tax relief until their initial investment has been recovered from profits.

BRAZIL

Brazil tries the defiant line - By Lombard
The Financial Times, London, July 21, 1959, page 6

Sooner or later father Per Jacobsson's "sweets, in future, only for children who promise to be really good" was bound to lead to a violent clash between the Fund and one of its members. And the first country to refuse to submit to the Fund's version of this traditional form of parental blackmail turns out, not altogether surprisingly, to be Brazil. For rather than accept its conditions for an advance, President Kubitschek's Government has said that it will do without it, even though it is aware that its refusal to toe the line may cost it the loss of other much larger foreign credits.

As was pointed out some time ago, the Fund has become more and more insistent, since Dr. Per Jacobsson became its chief, that member countries seeking its assistance on an extensive scale must be prepared to apply any economic reforms that it believes desirable before they can expect to get a favorable response -- even if these reforms entail, as they frequently do, considerable changes in official economic policies. And usually this treatment works, either because the country concerned can be persuaded that the reforms are really in its long-term interest or -- and most often -- because it feels that it is so essential to obtain external assistance that almost any price is worth paying for it.

However, when Brazil approached the Fund to seek help in dealing with its prospective 1959 payments deficit a short time ago, things did not follow their normal course. It seems that the Fund quickly made it clear that the help would be forthcoming only if Brazil was prepared to undertake some fairly radical economic

reforms, aimed among other things, at strengthening the country's chronically weak Budgetary position. But instead of making a show of resistance and then bowing to the inevitable, the Brazilian delegation went marching home, bitterly protesting that the IMF was insisting on measures the advisability of which the Brazilian Government alone could decide and arguing that it could not permit the continuation of discussions "contrary to the spirit of cooperation and mutual respect that had in the past characterized such negotiations." And there the matter rests.

In practice, Brazil is not going to find it so easy to maintain a defiant attitude to the Fund's "take it or leave it" challenge as President Kubitschek seems to imagine. It is not so much the question of whether or not she gets the $39 million credit she was hoping to extract from the Fund itself. For though her balance of payments position is far from robust, reserves are not so slender that she could not hope to get by without this relatively modest piece of help. The real trouble is that, unless she can come to terms with the Fund, Brazil may be unable to get some very much larger credits that were to be the other ingredients of the package deal.

It seems that these additional credits were to total $300 million. And without them Brazil may be hard put to deal with the deficit in her current account balance of payments and some substantial debt repayment commitments maturing during the coming 12 months. So hard put, indeed, that there obviously must be serious doubts as to whether she can continue to refuse to submit to the Fund's discipline.

Bearing in mind that there is clearly a great deal to be said for a really big effort by Brazil to put her economy on a sound footing, it might seem that there is no need to expend any sympathy upon her -- rather that we should condemn the Kubitschek Government for being reluctant to swallow the medicine that a kindly Dr. Jacobsson has taken the trouble to prepare for it.

There is, however, rather more to this business than that. While it can be taken for granted that the Fund is motivated by a sincere desire to promote the well-being of its members, there is room for doubt as to whether the means it advocates for achieving economic health are necessarily the best ones. For the Fund seems to see the answer to every problem of economic disequilibrium in a program of vigorous retrenchment that usually entails a lengthy interruption of economic expansion. Yet this is a case where the patient cannot in practice ask for a "second opinion." If he does not care for Dr. Jacobsson's pills he must be prepared to suffer in silence.

SHORT NOTES ON CURRENT ARTICLES

India - The big nine

Indian Finance, Calcutta, May 16, 1959, pages 825-827. This is a brief article which reviews the performance of the 9 large commercial banks in 1958. It laments the fact that earnings of these institutions have declined as a result of a dangerous rise in interest rates on deposits and in other operating costs. Thus the balance of profit to deposits has dropped from 0.70 per cent in 1957 to 0.53 per cent in 1958. The article calls for action on the part of the banks to develop a proper structure of interest rates and the fixing of a maximum. /The article also contains a full page of statistical data for each of the 9 banks, comparing figures for the years 1954-58./

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WEEKLY REVIEW OF PERIODICALS

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GREAT BRITAIN

More money - and moving faster - By Lombard
The Financial Times, London, July 24, 1959, page 6

It will probably not be very long before we begin to hear some shrill protests about the way things are going from that substantial school of thought that believes that money is at the root of all inflationary evil. For the volume of money in the United Kingdom is starting to expand again at an appreciable rate, while pounds are passing from hand to hand at a faster pace than ever.

A little less than two years ago the money supply issue came very much into the limelight following the assertion of the then Chancellor of the Exchequer, Mr. Thorneycroft, that the right way to tackle the wages-prices spiral was for the authorities to refuse to create any more money for providing the wherewithal for higher wage payments. For this suggested that official quarters were at last coming round to the view, long advanced by many economic pundits, that the answer to each and every type of inflation threat could be found in suitable control of the money supply.

Interest in the subject, however, has waned since that time. One reason for this is that the subsequent forces of events demonstrated that the Treasury could not obtain the control over the money supply it wanted or that, if it did succeed in doing so, this was not sufficient by itself to prevent wages from going on rising at a pace hardly slower than before.

Another reason is, of course, that the country appeared to be in such danger of running into a recession shortly after the Thorneycroft measures were put into operation that enthusiasm for the pure money supply approach to disinflation was damped down — even some of its most devoted advocates beginning to wonder whether it was a line of action that might not create more problems than it would solve.

Now it seems that there is a good chance that the subject will enjoy a revival. For after two relatively peaceful years, the money supply is again behaving in such a way as to attract attention. To begin with, it has clearly entered a new expansion phase. Since the banks have found the funds to meet the growth of the demand for advances only partly by liquidating other assets, their feverish lending activities during the past year have resulted in a substantial net creation of bank money, some £ 300 million in all. And while up to a few months ago the whole of this expansion was represented by additions to funds held on time deposits -- the less active section of the banks' part of the money supply -- it is now represented to the extent of all but a fifth by larger current account balances.

Then there is the note issue. This has been climbing more or less continuously since the end of the war. But whereas in the first half of the 1950's, the average annual growth was of the order of £ 100 million, during the past few years the pace of the expansion has been reduced to around £ 50 million per annum. The latest returns of the Bank of England show, however, that the active circulation is now running almost £ 100 million beyond the levels for a year before. It could be that the prolonged fine weather has caused the summer-time bulge in the public's requirements to be of a rather larger order than usual this year. But it would be surprising if the new upswing in the rate of growth of the note issue is not subsequently shown to have a substantial permanent element in it too.

And while we are building up our stock of money, we are also making each pound we have work harder. Thus the growth of clearing house turnovers which was all but halted in the 1957-58 period has in recent months begun to gather momentum again. In the first half of 1959 the London Clearing House handled about 7 per cent more business than a year before and a dozen provincial banks about 5 per cent more. Yet the deposits of the London Clearing Banks were only 3-1/2 per cent higher during the past six months than in the first half of 1958, even if time money is included, and were actually lower on an annual comparison basis in the case of current accounts only.

Moreover, to prove that this speeding up of the velocity of circulation of bank money has not been attributable to purely financial activity but reflects a more rapid movement of money used in connection with the ordinary run of business transactions we can turn to the Midland Bank's index figure for drawings on current accounts excluding those kept at City branches whose turnover is dominated by money market and other financial activity. For this was running 5 per cent higher than a year before in the first quarter of this year and 9 per cent higher in the April-June quarter.

Do these figures indicate that we have a new inflationary situation in the making? Much depends upon whether the economic re-expansion moves that have played a large part in provoking the increase in the money supply and the speedier turn-round of money produced a similarly vigorous increase in the supply of goods becoming available. But this is a field of argument wherein there is no shortage of experts, professional and amateur. And the writer will be quite happy to stand back while they thrash it out.

AUSTRALIA

Import ceiling raised to £A 850 million
The Financial Times, London, August 1, 1959, page 7 - From Canberra

Australian import restrictions will be eased extensively starting August 1, when the import licensing ceiling will be raised by £A 50 million to an annual level of £A 850 million. Simultaneously, discrimination against nearly all imports from the dollar area will be removed. Imports have only once exceeded the new ceiling of £A 850 million; that was in the Korean war boom year, when the import bill was £A 1,050 million.

Mr. John McEwen, the Trade Minister, who announced the relaxation, said that in all £A 400 million worth of imports would either be exempted from licensing altogether or would be licensed freely. Mr. McEwen stated that overseas funds were sufficiently strong to enable Australia to afford these additions to the import bill. The economy was sound and healthy. There had been a substantial inflow of overseas capital and export earnings were likely to rise in the coming year. The volume of rural production in the past year had reached a record level, added the Minister, and prospects for the current year indicated that Australia would have more wool for sale at better prices.

Importers welcomed the relaxation, but manufacturers said it would mean seriously increased competition for some industries. Trade circles in Australia regard the relaxation of discrimination against dollar imports as the most important of the changes, and the one which is most likely to affect British exports to Australia. American goods which may now compete in the Australian market include electrical and household appliances, textiles, clothing, carpets and linoleum, sporting goods, and footwear.

NIGERIA

Britain agrees to a £ 15 million loan for Nigeria
The Times, London, July 28, 1959, page 6

Chief Festus Okotie-Eboh, the Minister of Finance for the Federation of Nigeria, announced that the British Government had agreed to lend Nigeria £ 15 million towards its current development program. The money, consisting of a £ 3 million Exchequer loan and of a £ 12 million Commonwealth Assistance loan, is intended to meet the needs of the regional government as well as the federal government. The Finance Minister also expects to obtain further relatively small loans from "other friends" in the West. In reply to a question he stated this did not rule out America. He added that he was disappointed at the small amount of assistance which the United States had given so far towards development in Africa compared with the assistance it was giving to European and Middle Eastern countries. "It

sometimes seems to us that United States interest in Africa is directed more towards purposes of moral propaganda than to help of a practical kind."

The British Government, he felt, had been impressed by what Nigerians had been able to do for themselves -- they had provided some £ 105 million from their own resources for expenditure on economic and social advancement. Current development programs in the federal and regional spheres provided for expenditure totaling £ 153 million. Nigeria had borrowed £ 10 million from the International Bank and had some £ 6 million representing the balance of Colonial and Welfare grants provided by the British Government. Thus the gap between expenditure and resources had been reduced to some £ 32 million, and this would now be further reduced by the promised £ 15 million loan. Chief Okotie-Eboh also expressed his deep appreciation for the patience and understanding of Nigeria's affairs shown by some of the British officials.

FRANCE

Hire-purchase curbs eased
The Financial Times, London, July 11, 1959, page 5 - From Paris

French hire-purchase restrictions were further relaxed after the meeting of the Conseil National du Crédit, an official body which controls French credit policy.

Initial deposits for household electrical goods, radio and television sets, and two-wheeled vehicles are cut from 25 per cent to 20 per cent, and for other consumer goods from 35 per cent to 25 per cent. The maximum period for repayment is increased to 18 months. The maximum period for new cars is increased from 18 months to 24 months for those cars purchased in September and October, and from 18 months to 21 months for those purchased in November, December, and January. This last measure is intended to stimulate demand after the holidays, when it is expected to fall off sharply.

Simultaneously, the Bank of France has cut the rate for credit against securities from 6 per cent to 5-1/2 per cent and has approved unspecified "technical relaxation measures" for bank loans above the authorized ceiling.

NETHERLANDS

Balance of payments for 1958
Neue Zürcher Zeitung, Zürich, July 15, 1959, section 4 (in German)

A report submitted to the Dutch Parliament by Dr. J. Zijlstra, the Minister of Finance, reveals a considerable improvement in the country's balance of payments for 1958 as compared with that of 1957. The balance of trade in particular showed great improvement; the trade deficit dropped to 275 million guilders (from a deficit of 2,340 million in 1957), the lowest level in the postwar period. There was a marked drop in imports (from 13,731 million guilders in 1957 to 12,134 million in 1958) and an unexpected rise in exports (11,859 million in the year under review as against 11,391 million guilders the previous year). This drop in imports was the result of a drastic reduction in inventories and a sharp decrease in investments; lower prices for raw materials and semi-manufactures also played an important part in the reduction of imports.

The balance of current payments showed a marked improvement; it rose from a deficit of 419 million guilders in 1957 to a surplus of 1,694 million in 1958. Capital transactions closed with a net deficit of 47 million guilders (as against a surplus of 828 million guilders in the preceding year). Private capital transactions recorded a surplus of 757 million, an increase of 185 million guilders over the 1957 figure. This surplus was offset, however, by large public outlays for repayment of foreign short-term credits and foreign debts, creating a deficit of 804 million guilders on public transactions.

Minister Zijlstra pointed out in his report that the liquidation of the European Payments Union had raised certain problems concerning the gold and foreign exchange reserves of West European countries. Because of the loss of credit possibilities within the framework of the EPU he warned that in future much larger demands will be made on these reserves. Therefore these countries, and especially the Netherlands, will more than ever have to weigh the impact of their economic policies on their balance of payments.

SWEDEN

New forms of consumer credit
Svenska Handelsbanken, Stockholm, Monthly Economic Review, Index No. 6, 1959

The relaxation of the monetary policy has resulted in an increase in consumer credits and the emergence of new forms of such loans. Last fall the commercial banks introduced personal loans without security at an interest rate of 5 per cent on the original amount. It is probable that a total of more than 10 million kronor ($1.9 million) of loans of this type has been issued. Most of the borrowers have used the money to pay for furniture or other home improvement, building lots, or summer cottages. The savings banks, cooperating with the Association of Swedish Merchants, are issuing so-called purchase loans at an interest rate of 6.75 per cent plus a special fee of 2 per cent on the original amount which the retailer pays to the savings bank. These credits are intended for the purchase of durable consumer goods, but not automobiles.

The latest novelty in this field comes from the commercial banks. As of July 1 the banks have introduced a new variation of the earlier personal loans. These new loans can be used to finance the purchase of durable consumer goods from the members of the Association of Small Business and Handicrafts and also for repairs and installations carried out by members of this Association. As is the case with the ordinary personal loans the amount of credit is between 500 and 3,000 kronor, in exceptional cases up to 5,000 kronor. The interest rate is 3.75 per cent per annum based on the original amount of the loan. This corresponds to an effective interest rate of 6.75 per cent. In addition, the seller pays to the bank a fee amounting to 2 per cent to cover the cost of collection, etc. The repayment period may vary between 9 and 18 months and monthly payments are required, excepting July and December, if the borrower so wishes.

The purchase loans issued by the commercial banks differ in several respects from those available from the savings banks: the borrower need not be a depositor at the bank; the interest is added to the loan and need not, as is the case with savings banks' loans, be paid in advance when the loan is granted; and the borrower's life is insured for the duration of the loan.

FINLAND

Credit policy
Deutsche Bundesbank, Frankfurt a/M., Press Reviews, July 22, 1959, page 9

Last year the Bank of Finland gradually reduced its direct lendings to trade and industry. In an interview the Governor of the Bank, Dr. Klaus Waris, stated that the Bank had been able to do this partly as a result of the general easing of the money market and partly because the Bank's private customers had been able to improve their liquidity and hence needed to borrow less. In the public discussion of the question of the central bank's direct credit to industrial firms, the general view has been that the Bank should as soon as possible free itself from this task and leave the granting of the required credit to the ordinary banks. This view has also been shared by the administration of the Bank of Finland, but in times of credit shortage such as Finland has experienced for a long time, it is clearly no easy matter to discontinue these lending activities.

The Governor's statement was preceded by a declaration by the Prime Minister to the effect that the Government was now prepared to dismantle the very extensive system of State lending. The big advantage that would derive from the termination of direct loans to industry by the central bank would be that it would give the Bank greater room for maneuver in future operations in support of trade and industry during times of temporary credit difficulties.

BULGARIA

The peaceful Satellite
The Financial Times, London, August 4, 1959, pages 6 and 10

Communism can take strange forms. In Bulgaria, possibly the most loyal of all the Soviet Satellites, the Government has for the time being at any rate turned its back on developing heavy industry and instead is concentrating on such things as better tourist facilities on the Black Sea coast, improved consumer goods and layout in the shops, and modernized cigarette and food-processing industries.

In its anxiety to make life easier and less drab for its people, the Bulgarian Government is drawing unashamedly on western experience. There is no doubt that life has become a lot easier for the average Bulgarian in the last few months. But the impression of a general relaxation is partly a misleading one -- for in fact the country is poised on the brink of what it calls "the economic leap." During the last year there has been a drastic process of amalgamations in the cooperative farms, the Bulgarian version of the Soviet collectives. There are now less than a thousand of such farms in Bulgaria, yet they account for nearly the whole of Bulgaria's agricultural output. These farms are now being called upon to double their production within the next three years, as part of the new Five-Year Plan.

The Government is confident that this staggering target can be achieved. The proportion of irrigated land has roughly doubled in the last year, and by 1965 it will have increased nearly five times; by then nearly 40 per cent of all arable land will be irrigated. Fertilizer output, at present about 450,000 tons a year, should be running at 1 million tons by 1962. More important, the authorities feel that the peasants have now fully accepted collectivization, and that they are psychologically ready for higher productivity. And with the abolition of the system of compulsory deliveries to the State, there is greater scope for incentives.

The other aspects of the Five-Year Plan are in a sense subordinated to agricultural development. Industrial production is also to be doubled over the next three years, but much of the increase will be in industries dependent on farm produce -- food processing particularly, cotton textiles, etc. There are, of course, to be increases in coal, steel, and other metals, but it is unlikely that Bulgaria will ever be a major coal or steel producer.

The result of this new thinking is that the Bulgarian economy is now very closely integrated with that of the Soviet Union and the other Satellites. Bulgaria relies on these countries to supply her with the bulk of her manufactured goods and capital equipment, in return for which she sells them foodstuffs and provides tourist facilities. Since about 1956 the Soviet Union has almost certainly been putting more in the Bulgarian economy than she has been taking out, in contrast to earlier years. This is undoubtedly a factor in the present easier economic position. Soviet credits are financing more than 25 per cent of Bulgaria's economic expansion.

But the crucial question is what will happen if Bulgaria is unable to supply the goods to which she has committed herself under the Five-Year Plan? This is not entirely an academic question, for the targets of the Five-Year Plan were drastically raised a few months ago. However, the targets are probably not quite so fantastic as they appear. In the early years productivity was very low both in industry and the farms, partly because of a lack of power and transport and partly because of inexperience and bureaucratic muddles. As these defects are overcome, output can rise quite sharply. The Bulgarians are an industrious people and they seem to be learning industrial techniques remarkably quickly. The improvement in agricultural conditions is shown by the fact that the previous drift of labor into the cities has now been reversed, and some factory managers are beginning to complain of labor shortages.

Nevertheless, conditions in Bulgaria are still pretty drab by western standards. Housing conditions are bad, and transport facilities somewhat exiguous. There is a lack of variety in the shops, and the refusal to base prices on demand leads to some strange distortions. In many ways the system is still too inflexible, and reacts slowly to economic stimuli. Despite all this, it would be wrong to look for signs of widespread discontent in Bulgaria. The country was so backward before the war that it has not been difficult for the régime to produce some impressive improvements. The Russians are popular, not only because they are racially and culturally akin to the Bulgarians, but because they freed the country from Turkish rule (in 1878). And there is no rival focus of loyalties, either in the form of a powerful church or of traditional contacts with the West.

INTERNATIONAL COOPERATION

"Outer Seven" approve draft plan
The Times, London, July 28, 1959, page 7

The draft plan for a European Free Trade Association, drawn up by officials meeting in Stockholm and approved by the Ministers of the Outer Seven countries as a basis for drafting a convention, has been published as a White Paper.

It is the first substantial document available on the negotiations. It shows in much of its detail the extreme importance attached to producing a draft which would advance agreement with the six Common Market countries. The same motive is

reflected in the statement in the Press release that "to facilitate relations with the European Economic Community (the Common Market) all governments represented at the meetings have expressed their wishes to accredit representatives to the Community."

The draft is concerned with familiar topics -- a program of tariff reductions; the removal of quantitative restrictions; rules about "origin"; rules to maintain fair competition; escape clauses, and the like. The novelty is a section on fisheries. This reflects uncompleted discussions, where the main basis of agreement has yet to be found. Elsewhere in the document there is agreement in principle, though many detailed difficulties remain to be solved in this respect.

The paragraphs on difficulties in special sectors provide for protective measures in the transition period, that is, before 1970; members will consider before that date "whether similar arrangements will be needed thereafter." Action during the transitional period is to be taken only if "there is an appreciable rise in unemployment" in a sector of industry or region "resulting from a spectacular decrease in internal demand for the domestic product because of imports from other members." In such circumstances a quota may be imposed, but the Council's approval would be needed for this to be prolonged beyond 18 months. Normally the Council's approval should provide for an enlargement of the quota. When there is a risk of disturbance a member country may seek the Council's agreement to slow down the reduction of tariffs, to "permit a more orderly adaptation of the industry or region."

The section on quantitative restrictions appears to be an exercise in extreme ingenuity, providing for an orderly elimination of quotas according to a timetable, but at the same time avoiding any conflict with existing wider international agreements, especially the General Agreement on Tariffs and Trade, and allowing a faster rate of elimination of quotas if the proceedings of GATT call for it.

Greece to be associated with "Six"
The Financial Times, London, July 27, 1959, page 1

Plans for the Common Market to secure "increased solidarity in the Mediterranean area" were discussed by the Council of Foreign Ministers of the six nations meeting in Brussels. Existing proposals for association between the European Economic Community and Tunisia have now been supplemented with similar proposals for Greece. It has been rumored for some weeks that Turkey might also desire an association agreement.

Ministers were informed that Greece had applied on June 8 for association with the Common Market. They unanimously approved the proposal and left it to the Commission to work out details. Greece sells half her exports to Common Market countries and relies on them for more than half of her imports.

The Greek application was associated in the lobbies with the French proposal already accepted by the German and Italian Governments to form a permanent political coordinating committee of the Six. This would have its secretariat in Paris and would be the starting point for a common foreign policy as a counterpart to the common commercial and economic policies provided in the Rome Treaty.

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GERMANY

The German economy expands again - By Dr. Ludwig Erhard
The Financial Times, London, July 27, 1959, page 6

The German economy has reached a new stage in its steady growth over the past ten years. Since the beginning of this year market forces everywhere have tended towards a vigorous expansion. Both production and turnover show growing rates of increase which in their turn have been exceeded by the simultaneous rise in demand. Business is not only using its capacity more fully, but its order book position is also improving.

The fundamental change in the economic climate is particularly apparent in the labor market. Never before has the level of employment in the Federal Republic been as high as it is at present. Unemployment dropped very quickly from its seasonal peak in January to its lowest level ever.

Prices nevertheless continue to exhibit a slight downward tendency. Both costs and prices show little sign of movement: the average price level is lower than it was a year ago. This confirms the view that an accelerated growth of the economy as a whole is not incompatible with stable money values, even in a full employment economy. It may even be claimed that the stable price situation in the Federal

Republic, which has obtained approximately since the early summer of 1958, has been the most important factor in enabling the economic momentum to regain strength, a process which is at present under way on a very sound basis.

The stabilization of price levels has led to an exceptional growth of savings in Germany. In this way, consumers have made an important contribution to the stability of prices. At the same time, they have also helped decisively in the strengthening of the German capital market. The steady increase in capital looking for investment opportunities, coupled with the equally considerable accumulation of liquid funds in business and industry, exercised a welcome pressure on interest rates. Assisted by a parallel policy on the part of the central bank, the accepted rate of interest dropped by between 2 and 2-1/2 per cent in little more than a year.

The impact of the steep drop in the cost of money on the level of those investments which are sensitive to changes in interest rates is now fully making itself felt, particularly in the building industry. Both in housing and in civil engineering, the decree of economic expansion is encouraging, and largely helps to prime economic development as a whole. The positive influence of cheaper money is also unmistakable in the field of industrial investment in new plant and equipment, which of late has once again been growing at a faster rate.

With profit margins under pressure as a result of intensified competition, the favorable conditions which exist for the raising of capital from outside sources ensure a growing volume of capital expenditure devoted to modernization. Consequently, the positive influence on employment and incomes exerted by this development has lately shown an increase. This is demonstrated by the 18 per cent growth in the German home demand for investment goods during the period February-April 1959, as compared with the corresponding figure for the previous year.

In outlining the forces which determine development at the present moment, reference must be made to certain troublesome matters which caused considerable concern as recently as the start of this year. These are a partial damping down in demand in the field of energy, the recession in the steel industry, and the difficulties facing important sectors of the consumer goods industries in the recent past. The difficult position in which these sectors found themselves has in many cases been paralleled by a similar situation in other industrial countries of the West. Its roots, whether in the field of power or in the textile sector, are, in part, very deep and indicate structural changes in demand. Hence, a solution of these problems is not likely to be possible from one day to the next, but only by gradually adapting industry to the changes in market conditions.

In addition, part of the weakness of these sectors arose because both traders and manufacturers had overestimated likely demand and had accumulated excessive stocks of raw materials and finished goods as a result. These stocks had been pressing on the market until quite recently. In the steel industry, for example, cuts in production of up to 20 per cent of the output achieved in the corresponding period of the previous year, leading to short-time working and dismissals of labor, had become necessary. To the extent that these difficulties were due to cyclical causes, they may now be looked upon as things of the past. Stocks have been reduced to a normal level, in some cases even to too low a level, and both production and employment are rising in step with the growing demand.

As a result, the over-all economic picture has become more uniform in recent weeks. Even though some individual industries still produce less than they did a

year ago, the prospects for a resumption of growth are favorable. Companies in the textile and clothing industries, in particular, once again have a backlog of orders that ensures satisfactory employment for the remaining months of this year.

The current external trading position of the Federal Republic affects the development of the economy as a whole in two ways. For one thing, the improvement in the international economic climate has recently led to a pronounced upsurge in German exports. From February to April, export orders were 24 per cent larger than those in the comparable period of last year. Hence, both employment and incomes have been stimulated to a larger extent than they were last year when, it is true, exports rose by 2.8 per cent, but did so by reducing the volume of orders in hand.

At present imports merit particular attention. Experience from the repeated tariff cuts made during 1956 and 1957 for reasons of economic policy shows that such measures represent an extremely effective regulating device for an economic policy deliberately based on monetary stability. The moderation in price developments, which has been noticeable in the Federal Republic since 1958, is in no small measure due to the steep increase in the volume of finished goods imported into Western Germany. Easier access to the German market for foreign producers has helped to create vigorous competition within the German market.

The present slightly downward price trend is also largely based on the fact that the strong upward tendencies in demand coincide with an elastic supply position, particularly in the case of foreign producers, as shown by the volume of imports which, during the first four months of this year, exceeded the corresponding figure for the previous year by 10 per cent.

The economic momentum which has gathered strength during the last few months, and which has increasingly made its mark on economic activities in the Federal Republic as a whole, is likely to remain the determining factor during the rest of this year. This is confirmed not only by the present balance of economic forces, but also by all the indications and trends which point to the future. These developments will be based, firstly, on steadily growing investment, which will be stimulated both by confidence on the part of businessmen, and by the growing signs of shortage in the labor market.

Secondly, the exceptionally high level of employment and improvements in income ensure a steady growth of private consumption. The increase in demand which is bound to result is not likely to be affected by fiscal requirements during the next few months. The export surplus is likely to remain an expansionary factor. It is counterbalanced by the increase in the export of short-term and long-term capital, and thus the balance of payments is likely to reach very near equilibrium this year.

GREAT BRITAIN

Cohen Council Report: Industry urged to cut prices
The Financial Times, London, August 7, 1959, pages 1 and 13

"The strategic importance of seizing the present opportunity" of cutting prices is the central theme of the Cohen Council, which was appointed two years ago to review prices, productivity, and the level of incomes, and which has just published its third report /see also Weekly Review of Periodicals, Sept. 5, 1958, p. 1/.

In stressing the scope afforded by lower unit costs for reducing prices, the Council vigorously reinforces the recently expressed view of the National Institute of Economic and Social Research, a view which is known to have the warm approval of the Chancellor of the Exchequer. But the Cohen Council is even more specific in advising industry to follow the lead of those firms which, by cutting prices, are "aiming at increased sales with lower margins." The Council states "we recognize that complex considerations have entered into the recent movement toward higher dividends, but we should particularly regret it if it conflicted with price reduction."

The other main feature of the report is a clearly implied invitation to the Government -- which, in practical terms, would be the next Government -- to set up some sort of special investigation into the basic problem of preventing total pay and profits from rising more than output. After outlining various proposals for controlling wage and profit increases with a view to attaining a high output and employment without inflation, the Council, which passes judgment on none of these schemes, declares "There have been indications from various quarters that many of those most directly concerned would welcome discussion of all matters calculated to attain that objective and to improve industrial relations generally."

There are no indications that any such promptings have come from Whitehall -- which is always anxious to preserve the complete independence of the Cohen Council -- though a number of Government departments, including the Treasury and the Ministry of Labour, as well as both sides of industry, have been consulted in preparing the present report. The likelihood is that the interest in such a development has come from some industrial and labor circles.

In discussing what it calls "the great unsolved economic problem" of today -- the need to reconcile expansion with price stability -- the Council starts from the steadiness of prices over the last 18 months, which is "something quite new in our postwar experience." But it considers that there are serious disadvantages to the restraining of demand which was necessary to achieve stability since this was largely responsible for the check on Britain's output which has occurred since 1955. No better way, says the Council, has yet been found, but it believes there would be a gain in finding one.

The report regards raising prices to maintain profit margins as an essential part of the inflationary spiral and says that wage restraint is only likely to gain acceptance if there is also knowledge that a rise in profits will be restrained. As part of its discussion of profit margins, the Council says "it is open to question how far profits should additionally be kept up in order to provide the finance for physical growth."

"At present companies dispose of their net income (after replacement cost depreciation) roughly in the ratio of just under one-third to United Kingdom taxation and just over one-third to dividends (before tax deduction); the remaining third is retained in business. To some extent this retention is desirable but it has to be remembered that the result may be to prevent price reductions which are in the national interest. It requires a nice judgment to decide how far growth should be financed out of profits and how far industry ought to go to the market for its growth capital." In their introduction, the Council states that it again invited the Trades Union Congress to "discuss our problems with us, but to our regret, they refused our invitation."

INDIA

The writing on India's wall - By Lombard
The Financial Times, London, July 31, 1959, page 8

The relief India's external payments position derived from the undertaking by Western countries to provide her with more assistance in financing capital goods imports during the last thirty months of her Second Five-Year Plan has evidently proved shortlived. And the fact that the new deterioration seen in this field has stemmed in substantial measure from the failure of official efforts to revive the flagging export trade suggests that a re-alignment of the rupee to remove the formidable obstacle its over-valuation is presenting to the restoration of the country's external health must now be considered seriously.

In the closing months of last year the gap between India's foreign exchange outgoings and receipts which, within two years, had reduced gold and foreign exchange reserves from nearly $2,000 million rupees to a bare $700 million, was abruptly closed thanks to additional aid provided by the United States, Britain, Western Germany, Canada, and Japan in meeting the external cost of capital development. With this help, India actually managed within a few months to get her reserves moving upwards.

But recently things have not been going so well. Since the closing weeks of May the foreign exchange stock has suffered a net contraction of almost $50 million which means that reserves have now dropped a little below last year's crisis low. Evidently this setback is connected in some measure with the technical difficulties that have arisen over the implementation of the credit arrangements made by India's friends in the West. Because this assistance is often linked with specific projects or has been earmarked for other special purposes, it is not wholly available to India immediately. It seems, for example, that the large amount of money which the United States Government placed at India's disposal through the Export-Import Bank remains to a considerable extent unutilized.

But there can be little doubt that one of the main causes of India's continuing payments distress lies in the tendency for export earnings to be so sluggish that, even when the capital goods expenditure is being taken care of largely by foreign aid arrangements, they are not sufficient to cover the country's outgoings. At the moment, India's sales abroad are running below the levels of the early 1950's. It is, of course, the case that India has had a certain amount of bad luck with export prices during the past few years. But of no less importance has been the persistent tendency for Indian goods to price themselves out of world markets. This is, of course, another way of saying that the rupee has become over-valued at the official rate. This point is receiving some support in India itself, where "informed opinion" has hitherto been inclined to maintain that there was nothing wrong with the rupee.

India is not, it should be emphasized, under any immediate pressure to cut the value of the rupee. The drain on reserves, though worrying, is not yet running at crisis levels. And it might well be possible for India to slow it down by inducing her Western friends to be a little more flexible about the arrangements for releasing development aid, even perhaps to accept a recent proposal that they should regard their new credits as being available for meeting capital goods expenditure incurred in the past and therefore as immediately drawable.

Moreover, some extra money might be wrung out of the International Monetary Fund, if India were prepared to accept the "retrenchment conditions" that its management would probably demand. But, the Indian authorities ought to ask themselves whether there is anything to be gained now by putting off the exchange realignment on this account. Though a big effort is being made to stamp out inflation, the loss of purchasing power the rupee has suffered already could not be made good without a deflation program of a severity that would be quite out of the question in the present expansionist environment.

SPAIN

Bank Rate up 1-1/4 per cent
The Financial Times, London, August 7, 1959, page 9 - From Madrid

The Bank of Spain has raised its discount rate from 5 per cent to 6-1/4 per cent. A spokesman for the Bank said other rates would be raised accordingly. He also stated that national banks abroad had been informed of the change, which was effective as of August 3, but that no announcement as yet had been made in Spain because of the absence of the Assistant Governor of the Bank. /The Spanish Bank Rate was last raised from 4.25 per cent to 5 per cent on July 22, 1957./

New loan rates
The Times, London, August 10, 1959, page 12

According to reliable financial sources in Madrid some of the new rates ruling in Spain, following the increase in the Bank Rate are as follows: Re-discount, 5 per cent (previously 4 per cent); credits against personal guarantees, 7 per cent (6 per cent); and credits against merchandise, 6-1/2 per cent (5-1/2 per cent). All these, as the Bank Rate, date from August 3. Meanwhile it is now believed that, contrary to previous information, no official announcement covering these changes will be made in Spain.

Slump on Spain's stock market
The Times, London, August 10, 1959, page 12 - From Madrid

A list of shares which are to be exempt from taxes on interest appears in a Finance Ministry order published in the State official Bulletin. It ranges from Government stock to fixed interest industrial shares in companies which the State (under the Franco régime) has chiefly promoted and controls to a large degree. These include large enterprises engaged in making electrical goods, shipbuilding, steel manufacturing, petroleum products, chemical and fertilizers, cement and various monopolies. The publication of this long list of tax free stocks and shares, it is hoped, will serve to encourage investment and also to check the recent wave of selling on the Spanish stock market.

The steady drop in the prices of some shares which seemed to set in with the announcement of the stabilization plan and devaluation reached the proportions of a slump which affected practically all shares in the Madrid stock market during the week ending August 8; observers state it was one of the worst weeks for a long time. Looking at the list of some 61 stocks and shares quoted, only two showed gains. The Bank of Spain shares with a drop of 10 points at the end of the week suffered the highest loss among the banks.

MOROCCO

Import duties revised
The Financial Times, London, July 30, 1959, page 3

The Moroccan Minister of Economy has revised Customs tariffs on a wide range of imports in a move to promote local industrial expansion and to protect local industry against external competition. Duties on about 40 items will be raised between five and thirty-five per cent. Duties are being reduced, however, on certain raw material imports and goods deemed essential to the Moroccan economy.

ARGENTINA

Economic recovery plans
Bank of London & South America, London, Fortnightly Review, July 18, 1959, p. 652

In a nation-wide broadcast the new Minister of Economy, Señor Alsogaray, reported to the people that the monetary stabilization and economic expansion program announced by President Frondizi last December would be carried out. He stated that no changes were being contemplated in the official policy, but that it would be necessary to establish a new starting point for applying the measures, allowing problems to be considered in the light of current conditions. All the labor agreements and contracts now in force, provided they do not present insuperable difficulties of any kind, will be fulfilled, he stated. Every effort will be made to restore the value of the peso as its continued devaluation causes repeated increases in the prices of essential goods, particularly affecting the lower income groups. Extensive Government austerity will be carried out, he added, while the Armed Forces on their own initiative have already begun to make cuts in their budgets. Economies are being made in the administration by eliminating a certain number of State secretariats.

The Minister announced the demobilization of transport and oil workers, together with the cancellation of all disciplinary measures taken against them. He stated that this would mark the beginning of a fresh start towards national recovery. Argentina is being subsidized by foreign loans, and no easy solution can be promised for the future, he said; nevertheless, in the course of the last few months many projects under the rehabilitation program had made good progress and some would show results before long. Señor Alsogaray concluded his speech by appealing for six months of patience and hard work; granted these basic conditions, September and October would possibly be the worst months of austerity, he said, but from then on the situation could be expected to improve.

CANADA

Can we survive U.S. investment?
The Financial Post, Toronto, August 8, 1959, page 1

How long will Canada survive as a separate nation? Through the free and natural operation of economic forces, day by day Canada's control over her own destiny decreases -- and American control increases. It is a situation which too few Canadians know about and which many Canadians don't even like looking at. Few Americans know about it. But John Davis of British Columbia Electric recently did a very useful job in setting forth the main facts of this growing Canadian dilemma.

He was speaking at a seminar on Canadian-United States relations at the University of British Columbia:

"United States investment in Canada is known to be approaching $14 billion. It is getting on toward $1,000 for every man, woman, and child in our 10 provinces. It is more than three times Canada's total annual investment in new industrial plant and equipment. . . . Even if Canadians devoted all of their personal savings to the task, it would take at least a generation to buy the last American investor out."

At that, the $14 billion total understates the true magnitudes, Mr. Davis points out. Present market value of United States private investment in Canada is probably around $20 billion. At the $1-billion-a-year-rate at which book value is rising, it will soon equal our gross national product.

"What would the average United States citizen think about a level of foreign investment which was equal to 60 per cent of total yearly output of goods and services in 1959?" Mr. Davis asks. "Even in 1914, the highest year on record, it was less than 15 per cent of the then national income of the United States." Well over half the profits paid out by Canadian business go to non-residents. By 1980, the proportion could be 70 per cent. As for profits not paid out but reinvested by foreign owners in Canadian undertakings, "their very magnitude may make it impossible for future generations of Canadians to begin to buy back their 'national heritage.'"

Notwithstanding the many economic advantages flowing from United States direct investment here, Mr. Davis says, "Canadians might well ponder the question as to whether a country can have a meaningful, independent existence in circumstances where non-residents hold title to most of the means whereby it earns its livelihood." What would Americans do if British, German, or Japanese capital had similar penetration into their economy? One thing is sure: they would be jumping up and down with agitation and concern.

SHORT NOTES ON CURRENT ARTICLES

Foreign investments in India: 1957 and 1958

Reserve Bank of India, Bombay, Bulletin, June 1959, pages 660-672. This article reviews the trends in private foreign investment in India during 1957 and gives some indications, on the basis of incomplete data, of developments in 1958. At the end of 1957 the amount outstanding was Rs. 5,087 million ($1,068 million), of which direct investments accounted for 88 per cent and portfolio investments for 12 per cent. In 1957, too, the United States replaced the United Kingdom as principal source of investment funds. In 1957 there was a decided drop in the net inflow of investment funds (Rs. 168 million as compared with Rs. 247 million in 1956) arising from special compensation payments to nationalized life insurance companies and gold mining companies. It is estimated that in 1958 the net inflow of private funds will probably be not more than about Rs. 100 million. The article also discusses briefly the foreign assets and liabilities position (mostly short-term) of the banking system, comments on developments affecting the official sector, and gives a comparison of India's over-all investment position for the years 1955-58. It also contains a number of statistical tables.

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GREAT BRITAIN

The Radcliffe Report
The Economist, London, August 22, 1959, pages 553-558

"The Committee have underlined the gravity, rather than found a royal road to the solution, of the problems of postwar monetary policy." That was The Economist's comment on the report of the Macmillan Committee which had the misfortune to appear at the moment when the financial world on which it was reporting was crumbling to its doom. Twenty-eight years later, the task of inquiring into the working of the monetary system has been in many ways a much wider one, because of the growing wealth and complexity of the economy and the quite new responsibilities the authorities have in controlling it. At the same time, on the interpretation that the Radcliffe Committee has chosen, the sphere of monetary policy is smaller because it is now backed by other instruments of economic policy.

The central question is then two-fold: not merely what form should monetary measures take, but what role, in relation to other means of regulation, should be allotted to monetary measures as a whole. Many people will be disappointed that the Committee has failed to assess, and at some points might be held to have compromised, the overriding issue. But it is no small achievement to have produced an agreed blueprint on how the monetary system works and how its working might be improved.

Whatever the danger of its mishandling by politicians looking for an excuse to run away from monetary discipline, the Radcliffe Report must prove very valuable to those people, technicians as well as Ministers, who have a predilection for the monetary instrument in principle but have been bewildered about how it should be used.

The most important positive achievement of the Radcliffe Report, as it seems at this early juncture, will be to create and spread understanding of how the monetary system works; and this has long been priority number one. The aura of magic and mystery which harmfully and needlessly has surrounded monetary matters in Britain should at last be broken down. The Report is the best textbook that exists on the British financial mechanism, and probably the only one comprehensible to the layman. But there is more to it than this. First, the Report gives powerful support to the voices that have long urged the Bank of England to improve the working of its measures by telling the public what it is trying to do. And secondly, the Report urges the authorities themselves to learn much more about what they are doing.

No theme is more striking in this Report than the lack of information available to the authorities on the effect their measures were likely to have -- or on what measures were needed. An example among many is the use of trade credit, which in volume is four times as important for companies as are bank advances. No official estimates of the amount, or the terms, of trade credit exist. There have been two private inquiries, one finding that companies that extend more trade credit tend to add to their bank advances and the other finding precisely the opposite correlation. The fact that monetary management has been based in no small part on hit and miss is, after all, largely responsible for skepticism about its worth -- skepticism that has in some measure extended to the authorities themselves, and to this Committee.

Besides making extensive and mostly reasonable recommendations for the collection and publication of new statistics over a wide field, the Report itself carries highly important new series of figures made available by the authorities and private financial institutions. A good deal of the new information will not be available until publication of the three volumes of oral and written evidence, expected in two months or so. The Report whets the appetite for the evidence, not least the official evidence; important slants in the Report appear to be based on official views with which not everyone would agree. "It is implicit in the evidence given to us by the Treasury," the Report states, "that their main reliance for the regulation of the pattern and total of effective demand has at least since 1948 been on fiscal measures, monetary measures being regarded as having only a supporting role." It will be intriguing to see how the Treasury reconciles that with its explanation of 1955, when budgetary expansion was supposed to be contained by "the resources of a flexible monetary policy."

Apart from a change of approach to monetary research and public relations, the Radcliffe Committee is recommending no sweeping changes in the monetary system. Its recommendations, some of them tentative in tone, are mostly for a shift in emphasis in existing policy, often on lines towards which the authorities have been feeling already. The proposals in brief are the following:

Interest rates and gilt-edged: The authorities should have a definite policy in guiding long-term interest rates; these must be attractive enough to secure

finance for the public sector, and this may mean relatively high rates even in recessions such as the recent one. The authorities should tell the truth about who subscribes for new issues of their stock.

Local authorities: Local authorities should no longer be urged to seek their own finance in the market but should be given facilities at the Public Works Loan Board at the gilt-edged rate.

Liquidity controls: The authorities should be prepared to strengthen their influence over bank advances by the use of a special device to freeze liquidity, such as the scheme for special deposits or variable liquidity ratios. Use of such controls would in fairness probably demand extension of similar controls over other lending institutions.

Emergency measures: In addition, the authorities should have ready for speedy application in the event of a threat of "headlong" inflation a group of "emergency" measures, including controls on bank advances, hire-purchase, and capital issues (but not through the Capital Issues Committee).

Sterling: Externally, official policy is generally approved. The monthly statements of the reserves should be supplemented by additional connected information; most of this would put sterling in a better light.

Bank of England: The organization and status of the Bank of England is approved in general, but Bank Rate changes should be announced in the name and authority of the Chancellor. Part-time directors should remain but should not necessarily participate as full in policy decisions such as Bank Rate changes. A standing advisory committee on monetary policy should be set up to include representatives of the Bank of England, the Treasury, and the Board of Trade. The Bank should give more information in its report and regular return and the head of its intelligence department should be an executive director.

Commercial banks: The Clearing Banks' liquidity ratio of 30 per cent should be made explicit; and they should give certain new information. The Scottish banks should expose their ratios of cash and liquid assets, and they and other deposit banks should publish monthly figures.

Building societies, hire-purchase houses, and insurance companies: These, and possibly pension funds and the investment and unit trusts, may be affected by new liquidity controls if these are imposed on the banks. All these institutions should supply information on financial transactions.

Discount market: Competition at the tenders for Treasury bills should be made less difficult for outsiders, though it is not proposed that the discount market's syndicate should be broken up.

New institutions: An Industrial Guarantee Corporation should be set up to help raise finance to exploit new inventions. Unless existing institutions soon produce facilities for cheap transfers of payments there is a case for considering the operation of a "giro" system by the Post Office.

/The Economist in future issues plans to report in more detail on the various sections of the Radcliffe Report./

AUSTRALIA

"Popular" Budget cuts taxes by £A 25 million
The Financial Times, London, August 12, 1959, pages 8 and 9 - From Canberra

The first reduction in rates of personal income tax for five years was highlighted in the Budget which Mr. Harold Holt, the Treasurer, outlined to Parliament. The reduction of 1s. in the pound was hailed by Australia's 4 million taxpayers as a welcome relief. This concession, worth £A 20 million a year, was reinforced by increased allowances for life assurance premiums, and greater exemptions for aged taxpayers. Disappointment was, however, felt with the absence of any reduction in sales tax, payroll tax or company tax, apart from some relief for private companies in retention allowances. The minimum retention allowance will be increased from 25 per cent to 35 per cent to assist younger growing companies to build up capital.

Other features of the Budget include raising the migration target and the introduction of a withholding system for overseas investors. Apart from taxation relief, the Government made concessions costing about £A 18 million, of which the major commitment is a general increase of 7s.6d. a week in pensions. However, it is a "give and take" Budget, which will cost the public almost £A 18 million in increased charges for stamps, telephone, and telegraph services.

The Budget estimates of record revenues reflect the recovery in the economy, with forecasts of enlarged incomes, higher employment, and increased spending over the whole field covered by indirect taxation. Nevertheless, the Treasury has budgeted for a deficit of £A 61 million ($136.7 million), compared with a budgeted deficit of £A 110 million last year, and an actual deficit of £A 29 million. This expected result is explained mainly by the need to provide an additional £A 35 million in grants for the States, an additional £A 10 million for State loan funds, higher department expenditures, and the expectation that loan raisings will decline.

There is again a formidable debt redemption problem. The Government intends to follow up all possible opportunities of borrowing overseas on acceptable terms. Mr. Holt stressed that the Budget was not aimed at giving any general boost to spending. It had the aim, rather, of giving some carefully considered incentives to effort, and on the other hand of applying a degree of restraint to certain tendencies which, if they became exuberant, could undermine stability. Nevertheless, the Government was going ahead with its program of expansion. It had adopted an increased target for the gross migration intake for this year of 125,000, which was 10,000 over the figure for last year and about 8,000 more than the actual gross intake for the year.

Overseas investors will welcome the obvious strengthening of the Australian economy which the Budget reveals. The over-all economic position is far healthier than for some time, and in these circumstances it is not surprising that Mr. Holt was expected to introduce a popular and expansionist Budget. His policy is aimed at preserving the stability now evident in the economy rather than encouraging higher spending. The tax concessions he has given are, at first sight, quite generous. But little has been done for companies, and increased Government charges in a variety of fields leave the public with a "give and take Budget." The decision to budget for a deficit indicates the continued problem of raising money on the loan market rather than any intention to boost business activity.

PAKISTAN

Price controls eased
The Financial Times, London, August 13, 1959, page 10

On August 12 the Pakistan Government lifted price controls of 50 items as part of its policy to "make trade as free as possible without causing hardship to consumers." Imposition of the controls was one of the first acts of the new régime when it came to power last October. Among items on which price controls will remain are essential foodstuffs, textiles, building materials, and medical requisites. Decontrolled items include refrigerators, air conditioning plants, leather and leather goods, biscuits and confectionery, hosiery, and cutlery. Mr. Abdul Kasim Khan, Industries Minister, said the Government would watch price trends and take corrective measures if the situation demanded.

SPAIN

Foreign investments - New limit set
Neue Zürcher Zeitung, Zürich, July 29, 1959, section 6 (in German)

In connection with the economic reform a new law has been published in Madrid which revises the upper limit for foreign participation in any Spanish enterprise from 25 per cent to 50 per cent of the share capital. Larger investments must have the special approval of the Council of Ministers. The new law excludes participation in the defense industries as well as in certain types of public information and transportation services. If the Government so approves, certain exceptions may be made in the latter case.

Foreign participation may be in Spanish enterprises which are or are not of special social and economic importance. The first group includes firms which -- according to certain criteria set forth in the national investment plan -- provide capital for modernization or expansion of existing enterprises. This group enjoys the privilege of transferring dividends abroad without quantitative restrictions. The repatriation of investment capital, however, may not take place until after two years and two more years are required to complete the transfer. The second group may transfer abroad not more than 6 per cent of the annual dividend. Exceptions to this rule may be made if the economic situation and the balance of payments position permit.

TURKEY

More facilities for Turkish importers
The Financial Times, London, August 6, 1959, page 5 - From Istanbul

The Minister of Economy and Commerce has announced Turkey's third global import quota. The new quota totals $240 million, and is divided into three sections. First, $25 million is set aside for the completely free import of spare parts, pig iron, certain chemicals, etc.; $45 million is earmarked for imports of petroleum products, many industrial raw materials, tea, and certain other essentials for which import licenses will be issued automatically on demand; and $170 million has been set aside for other imports. The last section is understood to include, among other things, $1.75 million for the requirements of hospitals and $500,000 for those of the tourist industry.

The Minister's announcement is further proof that the Government is determined to remove as many trading restrictions as the country's foreign exchange situation warrants and, above all, to ensure that local industries receive the adequate supplies of raw materials and other items which will open the way for more economic production.

Exports during the first five months of application of the Economic Stabilization Program introduced a year ago were far lower than had been expected; those for the first six months of 1959 show an over-all increase of 50 per cent as compared with the same period of 1958. With the likelihood of well above average crops this fall, the prospects for the new export season are also good.

ISRAEL

Industrial output to double within five years
The Financial Times, London, August 12, 1959, page 5 - From Jerusalem

The doubling of industrial production in Israel and an increase in exports of well over 100 per cent within five years is foreseen in a report just released in Jerusalem by the Ministry of Commerce and Industry. The plan, covering the years 1960-65, aims at cutting Israel's trade gap by more than half and requires for its implementation an investment of over ₤I 300 million ($166.7 million). It is based on the assumption that Israel's population will rise by 500,000 to reach 2.5 million by 1965, that the standard of living will rise by 2 per cent a year, and that some of the present sources of capital imports, such as German Reparations, will have ceased meanwhile.

These factors together would lead to an increase in the foreign trade deficit from ₤I 118 million to ₤I 143 million annually. However, it is expected that over half of this deficit can be eliminated by the continued growth of exports and the substitution of imports by local products. Thus it is envisaged that an additional ₤I 87.5 million can be earned or saved by 1965: ₤I 48 million from industrial exports, ₤I 14 million from agricultural exports, ₤I 12.5 million from services, and ₤I 13 million from import savings.

To achieve these targets, industrial output is to rise by 10 per cent annually, a figure which compares with an average increase of 11 to 13 per cent during the past few years. In monetary terms this would spell a rise from about ₤I 340 million in 1958 to around ₤I 600 million in 1965. Of the additional ₤I 260 million worth of output, ₤I 80 million would be derived from existing industrial equipment not fully utilized now and from increased labor productivity.

CANADA

New restraints on bank lending
The Financial Times, London, August 15, 1959, page 1 - From Montreal

As a result of the Bank of Canada's discount rate reaching the unprecedented high of 6.41 per cent, Canada's Chartered Banks have announced that they will have to curtail their loans to the public. The Banks' statement was in general terms, but it is understood that the new restraints on lending will apply to some funds already borrowed under existing regulations.

It notes the sharp rise in the Bank of Canada's rate and adds "with the Bank of Canada's minimum lending rate to the Chartered Banks now above the legal maximum (6 per cent) at which the Chartered Banks may lend to borrowers the interest rate levels (charged to borrowers) can no longer operate as a deterrent to increasing loans."

In effect, it is pointed out that the Chartered Banks may be charged more for money they borrow than they are allowed to receive from the loans they make. Up to now banks were able to continue making loans by selling Government bonds out of their portfolios but, owing to the depressed state of the bond market, these securities have had to be sold at "sacrifice" prices and "naturally there is a limit to such procedure."

INTERNATIONAL COOPERATION

The Atlantic Economic Committee
The Bankers' Magazine, London, July 1959, pages 19-22

Economic and monetary problems of the Atlantic countries were discussed at some length by the Atlantic Congress, which met in London in the early part of June. The reports and resolutions submitted to and passed by the Plenary Sessions of the Congress may well prove to be of more significance and importance to the well-being of the Free World than was perhaps realized at the time.

The Atlantic Congress was not a NATO Congress, but a congress initiated and organized by the Nato Parliamentarians' Conference. About one-third of the 650 delegates to the Congress were parliamentarians, two-thirds consisting of distinguished private citizens. Each national delegation included representatives of politics, industry, commerce, finance, labor, science, and education. The major aim of the Congress was to draw up a program for the next ten years to show "that our countries can be . . . effective . . . in pursuing a coordinated common policy in their relations with each other as partners in a community, with the nations of the free and uncommitted world, and in their dealings with the Communist bloc." The Congress was divided into five main committees: Spiritual and Cultural, Political, Economic, Free World, and Communist Bloc. The Atlantic Economic Committee had four sub-committees dealing with the following subjects: Resources and underdeveloped areas in Atlantic countries; Scientific and technical cooperation; Implications of Western European economic integration; and Freedom of trade and currency questions.

The final Declaration of the Atlantic Congress sets out, in the economic sphere, the proposal (a) That governments should promote the maximum economic growth in production, employment and living standards and should avoid restrictive economic practices, taking all possible measures to reduce tariff barriers and maintain monetary stability. Furthermore, in view of the services rendered by the Organisation for European Economic Cooperation and the European Economic Community, and those which any other form of effective multilateral association might be expected to yield, they should work especially for an increase in the benefits of closer economic integration. (b) That consideration be given to the possibility of transforming the Organisation for European Economic Cooperation into an Organization for Atlantic Economic Cooperation in which all Atlantic countries would hold full membership. (c) That the Atlantic countries should undertake a massive and sustained effort to help the peoples of the less developed countries to achieve a rising standard of living together with individual freedom, human dignity, and democratic institutions;

in this effort we must not act as outside patrons but as equal partners with them in a joint enterprise of freedom.

This proposal is set out in greater detail in the Resolution of the Economic Committee, to the effect that the Atlantic Congress, ". . . considering the need for economic growth with stable prices and stable exchange rates, and the need for high levels of employment, recommends that: (a) Governments should adhere to policies for expansion and stabilization to promote high and rising levels of employment and living standards. (b) Governments should regard further progress towards freedom of trade and currencies as a major and urgent objective of economic policy. (c) In particular, Governments should take all feasible actions to reduce tariffs and other barriers to trade in the Free World, and, considering the major contribution that the European Economic Community makes to the political unity and economic strength of the Free World, should work especially for an increase of the benefits of closer economic integration through broadening the EEC or through some other form of effective multilateral association, consistent with the provisions of the GATT in which additional countries would participate. (d) Governments, while recognizing that during this process they may have to resort to temporary expedients, should not take measures which involve a return to restrictions. (e) Governments should consider the best means of promoting cooperative policies to further the economic progress of developing areas of the Atlantic Community and of the World. (f) Governments and international institutions should consider urgently the gaps that exist in the arrangements for collaboration in resolving the economic, scientific, technological, and energy problems of the Atlantic Community."

In the opinion of the Atlantic Congress, these gaps could best be bridged and these recommendations best achieved "(1) by the reinforcement of existing institutions either as now constituted or with some expansion; (2) by the adoption of revised forms of reference and in a new and more effective approach; and (3) by consideration of the possibility of transforming the Organisation for European Economic Cooperation into an Organisation for Atlantic Economic Cooperation in which all the Atlantic countries would hold full membership. . . ."

One of the major points which emerges from the Resolution of the Economic Committee is the importance attached to the achievement of economic growth with stability of prices and exchange rates. Delegates drew attention to the danger of attaining economic growth by inflationary means. This, it was stressed, would almost certainly lead to instability of exchange rates which, in turn, might induce governments to introduce new restrictions and expedients. Thus the economic progress and closer cooperation of the Atlantic countries could be hampered by wrong economic and monetary policies -- in fact, these might even destroy the Atlantic Alliance.

The United Kingdom delegation, supported by delegates from many other countries, must be congratulated upon its insistence on the need to fill the gaps which no doubt exist in the arrangements for ensuring "continuous and timely consultation on the economic problems of the Atlantic Community," not by the creation of new international institutions, but rather by making the fullest possible use of the existing agencies. In this context it is interesting to read the suggestion of transforming OEEC into an OAEC, and it is encouraging that this proposal was strongly supported by many delegates from the United States and Canada. This suggestion should be taken up without delay.

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

The Radcliffe Report: The Bank of England
The Economist, London, August 29, 1959, pages 658-659

"We do not think it likely that the complete constitutional structure of the central bank of the United Kingdom with its special responsibilities to the rest of the sterling area can ever be built up out of a series of statutory forms and prescriptions. In that sense the introduction of the 1946 power of direction may have had some disadvantage. . . ." (Par. 766 of the Radcliffe Report).

Status: "We are however dissociating ourselves from a view . . . that public interest requires that the central bank should be assured complete independence from political influence" (Par. 768). -- The eleven page chapter on the organization and status of the Bank of England needs to be read with extreme care. The present relationship of the Bank with the Government, as it exists in fact, is regarded by the Radcliffe Committee as "generally satisfactory." The Bank has a unique relation with the London financial market, in which it is "at once an operator and to some extent a controller," exercising in both functions a technical skill that finds no counterpart in Whitehall. Its voice carries weight over a wide sphere. The Bank has special relations with overseas central banks and with international organizations. Its management of sterling is "in the hands of experts whose technical brilliance is admired the world over." For all these reasons, the Committee agrees, the Bank should not be organized as a glorified government department.

On the big question, therefore, the Committee is recommending no change. But it suggests three adjustments. It advocates new means of coordinating monetary policy and ensuring that policies pursued by the central bank are "from first to last in harmony" with those of the Government. It wants to see the present reality of responsibility for major decisions such as Bank Rate changes recognized in the form in which they are made. And it seems to be proposing a diminution in the policy-making responsibilities of part-time directors; if the Committee's proposals are accepted, directors will have less reason for the embarrassments that were mentioned in the report of the Parker tribunal.

The basis of these recommendations is the Committee's assessment that (1) it is in the nature of the existing situation that the burden of initiating and formulating the Bank's policy and its proposals to the Government today falls on the Governor and the Deputy Governor; and (2) that on major questions of policy, the Chancellor necessarily has the final say. Even the Committee of Treasury, the "conscience in these matters" of the full Court, "is and must be in essence advisory" to the Governors. The Committee believes that the picture in the public mind has been distorted by the evidence before the Parker tribunal on the alleged Bank Rate leakage; it points to special circumstances present in September 1957.

The Committee does not openly criticize the Bank of England Act, 1946; but it finds it very difficult to say whether the power given to the Treasury of issuing directions to the Bank, after consultation with the Governor, has "brought about any actual change in the accepted existing relationship between Bank and Treasury" (Par. 761). And the subsequent clause in the Act, stating that subject to any such directions "the affairs of the Bank" are to be managed by the Court, is held by the Committee to have been given "mistaken stress" by the Bank. The Committee does not accept the traditional distinction drawn by the Bank between these affairs, including fixing of Bank Rate and management of the money market and the vast portfolio of the Issue Department, on the one hand, and the Bank's "agency" functions, such as the management of the Exchange Account and exchange control, on the other. In practice, the Committee says with much reason, the Bank's technical exchange operations and advice tend naturally to have a big impact on policy.

The Committee rejects the view that in the one field the Bank makes its own policy, subject to the Chancellor's power of issuing a direction, and that in the other fields it makes no policy. Over the whole range of its operations, it argues, the relationship should be that "the Bank contributes to the Government's discussions on policy the advice and suggestions which its unique operational experience and contacts qualify it to offer, while the Government on its side is careful to associate the Bank with the formation of those decisions on economic policy in which monetary operations are capable of taking a part" (Par. 769). This status may not be quite what the Bank would like; but it is more acceptable than it probably feared it would get, and is not an unreasonable form for this delicate relationship in a democratic society.

Bank Rate and the Court: "In our view the true responsibility for decision today lies with the Chancellor of the Exchequer, not with the Bank; and it would be better that this should be made explicit" (Par. 771). -- The Committee has, however, gone somewhat further. First it wants the reality of ultimate power and responsibility to be recognized formally. Changes in Bank Rate should be made in the name and authority of the Chancellor. And it would see an incidental advantage in using statutory direction for this purpose, since if this power is never used, "it may

acquire by disuse too momentous a significance to allow of its being used at all." This is less than convincing. If Government and Bank can get along without a directive, does one really have to invent circumstances for it to be dragged out? Feelings of self-respect and of pride in the Bank's stature among members of the Bank staff and Court are not to be lightly disregarded. They could never be decisive over a real contrary interest, but does this exist here? The popular newspapers and the general public already ascribe Bank Rate movements to the Chancellor. And since the Committee still envisages that Bank Rate proposals would originate from the Governor, the form of the announcement suggested by the Committee might itself be held to be misleading to the public. If change is needed, a better and more accurate form might be announcement by the Bank and in its name, but on the authority of the Chancellor.

Secondly, the Committee believes that full coordination of the Bank's policy with the Government's economic policy needs more than the present "detailed and continuous" confidential exchanges between Bank and Treasury. It recommends the setting up of a Standing Committee, deliberate and advisory in character, to keep under review all matters relating to coordination of monetary policy as a whole. The chairman would be the Chancellor and its other members would be four representatives of the Treasury, four from the Board of Trade, and four, including the Governor and Deputy Governor, from the Bank.

Decision on Bank Rate, it seems, would lie between the Governors, the Chancellor, and the Standing Committee. And, a vital passage, "it will not be either necessary or appropriate that the timing or measure of any change should be communicated to members of the Court before it is made public, except for good order at the time of the change" (Par. 785). The Committee regards this as in line with the Court's present function (Par. 784). But it does not make any specific reference here to the Committee of Treasury. Are the only directors in the know to be the two on the Standing Committee -- and will they be executive or part-time directors? The Committee says that in substance there will be little change (Par. 775). The Governor will still put together a Bank view, including in his consultations the part-time directors.

But in saying that "the function of the part-time directors is to act as a special consultant to the Governor" (Par. 786), and in supporting the continuation of part-time directors "so long as it is clearly understood what is the true nature of the services that they can render and no more than these services is asked of them," the Committee is surely recommending a change of substance. Something very close to its proposals were put to Mr. Cobbold at the Parker tribunal, by the Attorney General of all people.

In the penultimate paragraph of its section on the Bank, the Radcliffe Committee seems to take the point: people who have a "corporate responsibility" for the views on which they are canvassed will give a different quality of advice than mere consultants. But would part-time directors under the proposed system still have a corporate responsibility in a meaningful sense?

Telling the People: "From the point of view of monetary policy, we suggest a revival of the 1844 idea that the Bank should publish certain key figures exposing its operation in the monetary system" (Par. 367). -- That poignant thrust ought to strike home in the Bank itself. Besides its specific recommendations for regular information from the Bank, the Committee puts in its plea for detailed discussion

of technical matters in a quarterly bulletin and, naturally, for a transformed annual report. It suggests that the Bank might consider preparation of short monographs appearing under the name of their authors. The new information should not exclude the Bank's external business, on which there is nowhere available any detailed account.

As an essential foundation for telling the public more, the Bank is urged to strengthen its research and intelligence departments. It should cooperate closely with the Treasury in collection of financial statistics and consider an interchange of staff; and it might find it useful to recruit academic economists and others for limited periods to help in specific projects of research. Finally, the head of the intelligence department should have the rank of an executive director. This, as well as other suggested reforms in the Bank, would probably require legislation. It might not be popular in the Bank, with its natural insistence on the primacy operational judgment rather than back room views. Yet if the right man could be found such a move might have salutary effects. Other central banks have managed to achieve quite a high degree of economic sophistication without losing their practical touch.

SWITZERLAND

Balance of current payments for 1958 - By Dr. J. Bonorand
Neue Zürcher Zeitung, Zürich, August 1, 1959, section 6 (in German)

The Swiss balance of current payments for 1958, as released by the Commission for Economic Research, shows a surplus of 960 million Swiss francs ($222.7 million) as compared with a deficit of 195 million in the preceding year. The improvement in the balance may be attributed mainly to a decrease in the trade deficit which, because of reduced imports, dropped from 1,753 million francs in 1957 to a deficit of only 715 million in 1958.

Total income rose by 128 million francs as a result of higher revenue from the tourist trade, from insurance, license fees, and other services. Income from capital investments abroad, however, dropped from 580 million francs in 1957 to 555 million in 1958. In contrast to income, there was a decrease in expenditures of over 1 billion francs, chiefly because of a lower import volume.

At present there are no official data available for all the component parts of the international balance of payments for 1958. Private capital transactions, however, are believed to have shown a deficit for 1958 of about 107 million francs. One reason for this outflow was the higher interest rate level abroad, another was the improvement in economic prospects in other countries.

YUGOSLAVIA

New investment credits
Neue Zürcher Zeitung, Zürich, August 1, 1959, section 7 (in German)

Yugoslavia has been granted a new $15 million, 25-year credit by the United States. It bears interest at 3-1/2 per cent and is to be utilized for the purchase of equipment needed in the construction of a large hydro-electric project in the province of Hercegovina which is to be completed in 1966.

A new financial agreement between Yugoslavia and Italy also was concluded in July after exhaustion of an earlier $30 million credit. Under the new arrangement Italian industry, until the end of 1961, will provide Yugoslav industry with special equipment (durable goods) up to an amount of $50 million. This agreement, of importance to both parties, was made possible through the financial cooperation of the Yugoslav Investment Bank and the Italian Institute for medium-term investments.

Resumption of debt service agreed
The Financial Times, London, August 17, 1959, page 7

The Yugoslav Government and the Foreign Bondholders' Protective Council have agreed on a partial resumption of debt service on Yugoslavia's defaulted dollar bonds. The program calls for a total outlay of about $2.5 million over five years. The Council's President stated that the Council hopes to negotiate a permanent settlement before the expiration of the current agreement. This temporary settlement, which is being submitted to individual bondholders, provides that each $1,000 bondholder would receive $15 in the first year and thereafter $2.50 more each year until 1964. The scheduled payments include part payment on coupons originally payable in the period 1939-59, inclusive. It is estimated that there are about $25 million Yugoslav bonds outstanding. It is reported that Yugoslavia will now try to reach an agreement with British bondholders; a Yugoslav spokesman said "we are very anxious to settle all of our prewar debts."

U. S. S. R.

Russia turns to hire-purchase - By Victor Zorza
The Manchester Guardian Weekly, Manchester, August 20, 1959, page 3

Hire-purchase has come to Russia. Moscow Radio announced that articles such as radio and television sets, cameras, wrist watches, bicycles, motor cycles and scooters, motor boats, sewing machines, hunting guns, and woolen and silk fabrics could all be had for a down payment of 25 per cent. The prospective buyer presents his identity card and a letter of guarantee from his employers, and he does not even have to worry about his repayments. These are taken care of by his employers, who deduct the payments from his wages. Interest is payable at a rate of 1 to 2 per cent.

In June price cuts ranging from 16 to 21 per cent were announced in Moscow for such goods as watches, bicycles, cameras, and radiograms. The hire-purchase system for such goods was tried out in several towns, and now it has been approved for the whole of Russia. But such items as furniture, washing machines, or refrigerators are still not available on hire-purchase.

ETHIOPIA

Rubles for the Negus
The Economist, London, August 8, 1959, page 356

The Emperor of Ethiopia, Haile Selassie, may well be congratulating himself on the apparently inflated value Moscow seems to attach to his friendship. Alternatively, he may be wondering why Mr. Khrushchev is bidding so high. The most curious feature of the trade and economic agreement concluded during the Emperor's

visit to Moscow in July is the size of the new Soviet loan. If the full amount of about $100 million (400 million rubles) is paid out in, say, five years, it will represent about $1 a year per head of a population of perhaps 20 million. In recent years, economic aid to Ethiopia from all sources has worked out at only 30 cents a year per head. The United States allocated $27 million to Ethiopia between 1952 and 1958, but had only spent $17.3 million by June 1958. In terms of magnitude, therefore, the Soviet offer dwarfs previous offers.

Mr. Khrushchev must be as well aware as Haile Selassie that Ethiopia's financial and economic situation makes it difficult for this technologically backward country to carry a loan of this size. Ethiopia's usual exports of raw hides and agricultural produce are normally barely sufficient to cover imports of essential consumer goods. Can it confidently expect to repay a loan -- even at Moscow's usual low rate of interest -- which is to bring "various machines and equipment, precision engineering products, rolled ferrous metals," leaving little room for traditional trade?

It would not be surprising if the full amount of the loan were never spent; yet this does not mean that the whole thing can be dismissed as propaganda. Mr. Khrushchev's grand gesture will certainly have repercussions well beyond Ethiopia's southern borders. Soviet technicians will be given a chance to make informative geological surveys in a region to which Russia attaches increasing importance. A corner of "non-Arab Africa" will have been opened to Soviet economic influence.

PERU

Financial situation

Bank of London & South America, London, Fortnightly Review, Aug. 1, 1959, p. 722

On June 25, before his resignation, the Prime Minister and Minister of Finance, Señor Luis Gallo Porras, issued a report on the financial position of the country. The report stated that the 1959 national accounts would be closed with a deficit of approximately 832 million soles ($29.3 million) of which 594 million soles would represent higher expenses and reduced revenue, 98 million soles subsidies for essential food products, and 140 million soles bonuses to be paid to public servants in accordance with the recently approved salary increases. It is estimated that the total cost of subsidies and bonuses in 1960 will be 269 million soles and 240 million soles, respectively.

The report confirmed that drawings on the International Monetary Fund stand-by credit had been suspended by the Government (with the approval of the Banco Central) because they had lately been used to cover foreign exchange shortages of a permanent nature, which was not in accordance with the purpose for which the loan was made, and that these shortages had been substantially corrected by the recently imposed ad valorem surcharge on imports and the luxury tax. It also said that the Government was preparing a stabilization plan which would be submitted to the IMF.

The report also suggested various measures which could be taken immediately to alleviate the present position. These included a considerable reduction in the expenses incurred by the Government, government agencies, and government-owned enterprises; the suppression of subsidies granted for essential food products; the restriction of new expenses and commitments to indispensable requirements; the

obtaining of foreign credits for stabilization purposes; and an attempt to settle the problems caused by the maintenance of an artificially low price for petroleum. The report further confirmed that the Government would maintain the present policy of free trade and freedom from exchange controls.

CHILE

Foreign loans for Chile
The Financial Times, London, August 14, 1959, page 5

Credits for a total of $282 million obtained by Chile were announced by Señor Vergara, Chilean Finance Minister, after his return from visits to the United States, Britain, West Germany, and France. Listing the credits obtained, the Minister gave the following details of the individual loans:

1) A consortium of 11 United States banks granted a credit of $55 million. Of this amount, $32 million is to be invested in public works and $23 million is for payment of overdue commitments. This credit is for a four-year term. 2) The Export-Import Bank granted $27 million, to be used in Government development plans. This loan is for a seven-year term. 3) The International Monetary Fund, jointly with the United States Treasury, granted a credit of $23.1 million. 4) The Export-Import Bank approved $25 million in credits for the private sector; the credit is to be used for importing equipment and machinery for specific projects approved by the Bank. 5) The West German State agency, Kreditanstalt für Wiederaufbau granted a credit of DM 50 million ($12 million). 6) Sundry West German private and public credits were granted in an amount of DM 320 million ($76 million). 7) A credit for DM 50 million is at present being negotiated with a group of West German banks for development projects. 8) France has granted an eight-year credit for $50 million for the purchase of machinery and equipment.

INTERNATIONAL COOPERATION

European Investment Bank seeks more outlets
The Financial Times, London, August 8, 1959, page 7 - From Brussels

The unused funds of the European Investment Bank -- set up under the Rome Treaty with its headquarters in Brussels -- may become an instrument of the Mediterranean policy of the six Common Market nations.

The Bank has an authorized lending capacity of $2,500 million. After more than 18 months' existence, it has only succeeded in finding borrowers of $40 million. There are other potentialities under investigation, and at least one project is believed to be nearing fruition. But the total loans now contemplated seem unlikely to exceed $10 million. Even the Italian Cassa del Mezzogiorno, originally envisaged as the first big borrower, has so far been unexpectedly sparing in its demands. It was, indeed, responsible for three of the first four loans in the Bank's first batch of operations, but the amounts were small compared with the Bank's capacity.

The lack of demand for funds may be due to the fact that the Bank's field of operations is a region where "banking machinery is most developed." It has been found in several cases -- notably in Holland at the present moment -- that the rates at which the Bank can offer money do not represent an appreciable interest saving. The Bank's funds, once lent, will be "out" for considerable periods. It is,

therefore, in no special hurry to fill its portfolio, particularly since it is under no requirement to act as a profit-making enterprise. Nevertheless, it is clear that additional loan proposals would be welcome.

Investment in Mediterranean countries would be an obvious supplementary outlet. The Bank is only authorized to lend for the partial financing of specific projects, and it may lend to member governments or to "public or private enterprises." The projects must fall into the pattern defined in the Treaty, which means that they must be connected with the development of underdeveloped areas; or they must be for modernization or new industrial projects required on account of the Common Market; or they must be of common interest to more than one member State.

Though the actual investment must, in general, be in the territory of one of the Common Market countries, provision is made for exceptions. A proposal involving investment in Greece, Turkey, or Tunisia, all of which are potential associates of the Common Market, would require the approval of the Board of Directors, who are in practice the Finance Ministers of the member countries. In other cases, decisions on loans do not need to come before the Board at all.

The fact that each government has a veto on loans which might be politically inspired is at present the main security of the Benelux countries against new departures prompted by the foreign policy of their bigger partners. The veto, however, might be avoided if Greece or Turkey should become associate members of the Common Market, instead of simple associates. This would, however, apparently involve a revision of the Treaty, the procedure for which calls for ratification by the Parliaments of the member countries.

SHORT NOTES ON CURRENT ARTICLES

Tomorrow's convertibility: Aims and means of international monetary policy - By Robert Triffin

Banca Nazionale del Lavoro, Rome, Quarterly Review, June 1959, pages 131-200. Professor Triffin of Yale University explores ways and means by which the new convertibility could make a contribution toward balanced growth of the world economy. He considers that a revaluation of gold and a flexible exchange rate system are two false solutions to the world liquidity problems. Although the convertibility measures were a step in the right direction, they offer no permanent solution. The writer proposes the internationalization of foreign exchange reserves under the guidance of the IMF. He discusses at some length (including a number of tables) the present limited lending capacity of the Fund. The new plan would provide a cushion of capital which would enable the Fund to coordinate internal financial policy in an effort to safeguard the equilibrium in each country's balance of payments. In this process national policy instruments would have to be surrendered and exchanged for international policy instruments wide enough in scope to achieve the objectives of economic policy in the present-day world. A start toward the fulfillment of this goal has been made by various organizations set up in Europe, such as the European Economic Community and the European Monetary Agreement. Agreements of this type could serve as a basis for future international integration.

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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INTERNATIONAL COOPERATION

The Six in business
The Economist, London, August 8, 1959, pages 333-334

The Common Market today is on the political defensive. Economically it is a fact of life. In France, both inspiration and doubting Thomas of the European movement, General de Gaulle and his followers have rejected the whole intellectual content of M. Monnet's Europe. Yet the start of the Common Market in January gave occasion for a radical change in French economic policy, while the dynamic sectors of French industry, having already shown some remarkable changes in attitude in preceding years, have taken the Common Market to heart and made it the occasion for further advances in organization and production methods. In Luxembourg and Brussels the "Europeans" are in the vale of doubt and find it difficult to move beyond the letter of their treaties. Yet the first tariff and quota changes under the Treaty of Rome have initiated a far-reaching process of economic change.

Exporters from the countries outside have been the first to feel the effects. The incidence of tariff and quota changes has so far been small, but with an eye to the future, distributors inside the Common Market are dropping British agencies and turning to distribute the products of the Six. And businessmen within the Six are looking further ahead than immediate export opportunities. Earlier this year

the European Commission drew up a list of industrial agreements within the Community. It listed some fifty mergers within individual member countries as well as arrangements for new investments by outside companies, almost all American. Most interesting of all, perhaps, it listed some thirty cooperative arrangements between firms in the Community, cutting across national frontiers.

Most of the industrial agreements are combined arrangements for joint selling and production. Krupp and the French PIC have agreed on joint construction of complete installations for preparing coal. Renault and Alfa-Romeo have agreed to use each other's distribution networks and assemble each other's vehicles. Bayer has agreements with a number of French firms in various fields for joint technical cooperation. Firms in the Community are getting a foothold next door so that they can expand sales rapidly as the barriers come down. They are beginning, by agreement, to pool production resources, specializing in different fields, as falling customs barriers make some fields of production less profitable and others more so. Inside individual member countries small firms have been getting together to face the new competition. In France there has been a far-reaching reorganization in the textile industry. In Holland small engineering firms are setting up a consortium.

In banking it has been realized that a single European market, with capital free to move within it, will produce new needs for services covering the whole market. New joint industrial projects may have to be financed jointly. Backing will have to be found for an expanding flow of goods and capital. Groups of banks have already agreed on cooperative arrangements that could lead to international mergers later on. In distribution the big European stores are already going in for joint buying. The European Commission listed also 60 new joint organizations formed by business and professional associations in the six countries. These are not price agreements. They are groups for sorting out common problems that arise from the Common Market, and lobbies for pressing on governments and the new institutions in Brussels a common point of view.

Is a monster cartel growing up across the Channel instead of a market? Cartels and state intervention are, after all, familiar enough historically in Germany, Italy, and France. Yet the removal of trade barriers within the Common Market, which is its essential characteristic, will in itself produce if not a new surge of competition, then at least the threat of it. It is the prospect of new competition, after all, that has initiated the latest stage of industrial change. But in the Community, as elsewhere in modern industrial life, competition will no doubt be less than perfect; and the new industrial agreements tend to combine a productive response to competition with resistance to it. The question is which ingredient will be strongest in the new Common Market cocktail.

One judgment can probably be made. It seems safe to say that the agreements, mergers, and other arrangements that are taking place within the Common Market will not wholly arrest the shifts in production that should result as industrial tariffs fall. There are enough dynamic forces to ensure that the status quo will not be frozen. The Common Market has rules of competition, which prohibit certain restrictive practices; much depends on how they are interpreted and enforced. All that can be said at present is that the Commission of the Community is taking a courageous line. But for the moment enforcement depends in part on national laws. Here only Western Germany, with its new liberal economic climate, has an anti-cartel law with real teeth.

What is the implication for firms outside the new industrial relationships within the Community? In one sense the prospect is not yet bleak. It will be some years before major shifts in investment take place, based on the assumption that the division within western Europe will be permanent. German firms, for example, are not yet working on the premise that they will be the only major industrial power to get a new footing in the French market. They still assume, and even hope for, some sort of wider agreement. Once that hope dies, or becomes dim, then industries in Germany may start adjusting themselves to a more permanent hold on a larger share of the markets of the Six, and a more disquieting situation will arise.

One important bridge still exists in the great international companies that operate on both sides of the line: Unilever, Siemens, General Electric, Ford, General Motors, and the others. British firms that have subsidiaries inside the Six, or agreements with firms there for the distribution or assembly of their products, are also playing a part in the holding operation. The British Motor Corporation's negotiation with Innocenti for the assembly of the Austin A-40 in Italy is a good example.

The deepening of the industrial division within Europe is thus a gradual process. The rift is by no means irrevocable; but new interests are steadily being established. Habits of cooperation and the technical arrangements made today set the pattern for mergers, common production arrangements, and joint efforts in third markets later on. Indeed, the specific arrangements that are now seeing the light are often the sequel to friendly contacts that have been evolving ever since the Common Market Treaty was signed. There are still some similar contacts between insiders and outsiders. Associations of business organizations still include countries like Switzerland, Sweden, and Britain as well as the Six; but inevitably the new Common Market groupings are tending to displace them.

In new investment, it is true, uncertainty about the future is unfortunately holding all west Europe back, including the Common Market countries. Both Europe and the American investors are tending to adopt a policy of wait and see. Yet already the tide is beginning to flow. In the first quarter of this year $240 million of American capital came to Europe, compared with $150 million in the same period last year. Inside the Six Holland and Germany, where the climate is more favorable than elsewhere, are getting the lion's share. Once it becomes apparent that the present division is to last, American firms will tend to push on with investments in the area of the Six, thus identifying their own interests with this new reality.

GERMANY

Changes in minimum reserve ratios of the Deutsche Bundesbank
Deutsche Bundesbank, Frankfurt a/M., Press Reviews, July 17, 1959, page 1

The Deutsche Bundesbank has announced a change in its minimum reserve policy which takes the form of a regrouping of the credit institutions. Heretofore the banks were divided into six categories. Beginning August 1, there will be four effective reserve categories. The first group consists of banks whose balance sheets show liabilities (including savings deposits) of more than DM 300 million. The fourth group includes banks with liabilities and savings deposits of less than DM 3 million. The reserve ratios for sight liabilities for banks in reserve cities will be 13 per cent for the first group and 10 per cent for the fourth; for banks

in secondary cities (cities in which there is no branch of the Bundesbank) the ratios will vary from 10 to 7 per cent. Reserve ratios for time deposits have been fixed at from 9 to 6 per cent regardless of location of the bank. Ratios for savings deposits will be the same for all four categories, namely 6 per cent for banks in reserve cities, and 5 per cent for banks in secondary cities.

The total minimum reserve requirement debt which, in June of this year, amounted to approximately DM 7 billion, will probably be reduced by about DM 300 million. The changes in reserve requirements, for the most part, will benefit the smaller credit institutions and banks in secondary cities, and in particular they will reduce the reserve ratios on savings deposits. The timing of this step, it is felt, is particularly fortunate since, starting on August 1, the credit institutions of the Saar for the first time will become subject to minimum reserve requirements.

The decision of the central bank has been well received by the credit institutions because for some time banks and savings banks have been asking for a revision of the reserve ratios. The step is also welcomed in connection with the capital market policy of the Bundesbank which aims at keeping the market liquid in anticipation of a large demand for public loans. The amounts which are being freed by the revision of the minimum reserve ratios -- it is believed in banking circles -- will become available for, and will facilitate the placing of, public issues.

AUSTRIA

Aims of economic policy
Neue Zürcher Zeitung, Zürich, July 24, 1959, section 3 (in German)

The official proclamation of July 17 issued by the newly-elected Government does not contain economic principles in the strict sense of the word; rather it gives expression to hastily conceived and loosely connected popular desires and plans of both coalition parties. Some of these are contradictory and the financial costs of the program have not been taken into consideration. It was very easy for both parties to agree on the popular chief objectives, namely: currency stabilization, full employment, continued expansion, maintenance of the purchasing power of the currency, price and wage stability, and a higher standard of living. It is impossible to pursue these objectives all at the same time; and it is characteristic that the authorities did not bother to mention the balance of payments and the Budget.

It is especially interesting to note the principle of intervention by the State. The Government is to intervene only when the general well-being requires such intervention, or when the representatives of the various interested groups are unable to come to an agreement.

Concerning economic and financial measures and methods it is obvious that only a contradictory compromise was possible between the diametrically opposed views of the two parties. The Minister of Finance insisted on the continuation of his policy of "active expansion." This policy has run parallel to the worldwide expansionary trend, it has cost large sums and has resulted in huge deficits. It was announced that, unfortunately, one of the pillars of this policy, namely sizeable decreases in the tax burden, could no longer be counted upon because of

threatening deficits. Along with this active financial policy, the Government plans to pursue what is called a "productive economic policy" which aims at granting credits on easy terms to the tourist industry and small enterprises.

In addition, the Government plans to create permanent employment in the underdeveloped areas in Austria, to encourage savings by the issue of people's shares, and to undertake a reform in public administration in order to save sufficient funds to pay for the employment of new personnel, especially in the security sector.

The Ministry of Commerce will develop the road system and improve irrigation and water works. The same Ministry is to solve the current coal crisis and maintain petroleum production. The building sector is to construct 50,000 new residential buildings per year instead of 40,000, as heretofore. These will be partly financed with public funds, despite the fact that the entire construction industry is overoccupied and is therefore suffering from a labor shortage, cost increases, and a deterioration in quality.

The Transportation Ministry is to modernize and electrify the Federal railroad system. More power stations are to be built, and considerable investment is contemplated in communications for the purpose of automation. Social problems, such as working hours, pension rates, sickness insurance, etc., will receive special attention.

The agricultural sector is receiving full attention, and many new measures are planned, for example: a fight against excessive price fluctuations; new storage facilities; the creation of a continuous demand for agricultural products with constant prices; adaptation of the Austrian market to the integrated European market; an increase in the country's competitive position; cheap credits for improving the quality of agricultural products; change-over to different crops; etc.

All in all, the new official economic program promises everything which is popular and expensive and which creates an optimistic feeling in everyone except the taxpayer. There is no coordination among the high objectives, nor any between the aims and methods and appropriateness of methods. This will not be too worrisome a situation, however, if the two parties show a sincere desire to cooperate. But more publicity is needed, especially with regard to the economic thinking and activities of the Government. Despite all its weaknesses, the common declaration of the two parties deserves some confidence for it contains certain measures which point to a more hopeful future.

UNITED ARAB REPUBLIC

Foreign aid needs of UAR
The Financial Times, London, August 5, 1959, page 5

The United Arab Republic Government has adopted a plan to double the national income in 10 years instead of in 20 years as was originally planned. The step has evidently been taken in an effort to combat the problem of overpopulation and its adverse effect on any attempt to raise Egyptian living standards. In the five-year period following the 1952 revolution in Egypt, the national income increased by 25 per cent, an annual average of 4.65 per cent, but the effect of this increase was greatly reduced by an annual population increase of 2.5 per cent. President

Nasser stressed this point in his speech to the nation on July 23. He said that if the present rate of economic growth were maintained, nothing would have been achieved, since the population was expected to increase by 4 million in the next seven years.

As might be expected, the 1959-69 Budget estimates for the Egyptian and Syrian regions of the UAR have been worked out in accordance with the new plan to increase national income per head from £E 40 a year to £E 80 by 1970 and to £E 160 by 1975. The UAR Minister of Economy, Dr. Abdul Munim Qaisuni, said that in order to fulfill the new plan, a capital investment of the order of £E 975 million ($2,798 million) would be required over the next five years.

President Nasser cannot possibly fulfill his plan to double the national income without some sort of financial assistance from outside. It is doubtful, however, whether he would wish to incur further long-term commitments to the Communist bloc countries, except as a last resort. Negotiations have been going on in Cairo between the UAR authorities and the World Bank and it is authoritatively stated that both the Egyptian and Syrian regions have decided to increase considerably their contributions to the International Monetary Fund and the World Bank. This will give the UAR Government the right to request increased loans from these organizations, and it is to be expected that President Nasser will rely to a large extent on these sources to provide the capital for his ten-year development plan.

IRAQ

The Iraq economy after the revolution
Neue Zürcher Zeitung, Zürich, August 5, 1959, section 6 (in German)

Agricultural and industrial experts returning from Baghdad report that the Iraqis will experience serious difficulties unless they heed the order of their Prime Minister Kassem to work harder in order to increase production. It is estimated that the average productivity of an Iraqi worker amounts to only 60 per cent of his capacity before the revolution in July 1958. Some firms even estimate that the productivity of their employees has fallen to 30 per cent of that in earlier years. The decline seems to result from the fact that many Iraqis seem to mistake their republican freedom for the freedom of doing nothing.

Reports from the northwestern part of the country indicate that as a result of a hard and late winter there are only meager crops and also great losses of livestock. Certain tribes, which fled to Syria after the revolution, abandoned their crops which became the prey of roaming animals. It is also reported that on account of drought and locusts the wheat crop was reduced from 1.1 million tons in 1957 to 350,000 tons in 1958, and the barley crop from 1.3 million tons to 700,000 tons.

The only important economic change resulting from the revolution is the agrarian reform which was long overdue. In previous years, Iraq used to have many large land owners who often mismanaged their holdings. Until 1958, 39 per cent of the population owned 85 per cent of the land. After the revolution, private ownership was restricted to about 250 hectares of irrigated and 500 hectares of unirrigated land (one hectare = 2.47 acres). The agrarian reform is to be completed in five years.

INDONESIA

Indonesia fixes new exchange rate
The Financial Times, London, August 26, 1959, page 9

A presidential decree has fixed the rate of the rupiah against foreign currency at 45 to the dollar. According to Djakarta newspapers, the black market rate has been 155 rupiahs per dollar. /Although the new rate is given as 45 rupiahs to the dollar, an exporter will actually receive only 36 rupiahs per dollar, since export proceeds are subject to a 20 per cent export tax./

Drastic monetary reform - Decimated money
The Financial Times, London, August 25, 1959, page 9
The Times, London, August 28, 1959, page 9

The Indonesian Cabinet announced the devaluation of 500 and 1,000 rupiah notes to one-tenth of their face value. The Cabinet spokesman stated that the Government also intended to freeze 90 per cent of deposits of over 25,000 rupiahs ($556 at the new rate of exchange) and use the money as a loan from the depositor /except deposits of government, religious, or social bodies, which may be exempted in whole or in part/. Another major decision was to abolish Indonesia's export certificate system for financing foreign imports and go back to orthodox methods. The Finance Minister ordered all banks and government offices to close their books and submit a signed statement of their cash position.

It is still too early to estimate the full effect of these measures imposed by the Indonesian Government. By making currency notes of 1,000 and 500 rupiahs worth only one-tenth of the face value the Government is taking a measure of pure confiscation. It is the kind of action which elsewhere could be justified if such notes were used mainly as the lubricant of a black market. But this is hardly true in Indonesia, where their value is such that any businessman might have them in his wallet. It is true that a good deal of trade has been conducted outside the controls the Government tries to exercise, much of it going to Singapore; but in no sense can this trade be described as a black market. It is probably the Chinese rather than Indonesian nationals who will be worst hit by this measure which will reduce by 8,500 million rupiahs the value of notes in circulation. A less widely known decree, aimed directly at the Chinese, prohibits as from January next year any retail trade in the countryside conducted by foreigners. This can mean only a direct assault on Chinese small traders throughout the country.

The other measure, whereby 90 per cent of all bank accounts above a balance of 25,000 rupiahs will be forcibly invested in long-term Government loans, hits at all foreign trade. No foreign company can operate on such a cash balance even if they had any confidence in the investment forced upon them. Such a measure might also be justified where complete and effective controls can operate and where the impetus to national financial stability makes the public accept such disposal of its money. But is there any confidence that these measures will bring a new stability in Indonesia? It is not the first time that the rupiah has been devalued. The result now, far from restoring confidence, may lead only to greater speculation than ever before. A strong Government, confident of its ability and clear-headed in its economic planning, can resort to drastic measures, but these measures seem to derive from weakness rather than from strength. /It has been reported that the Governor of the central bank, Loekman Hakim, has resigned as of September 1./

CUBA

Economic crisis threatens Cuba
The Financial Times, London, August 19, 1959, page 11

Reports of invasion and threatened counter-revolution in Cuba distract attention from a far greater danger to the new Cuban Government. Unless Cuban finances can get a shot in the arm soon, the Government which has been in power since the overthrow of the Batista dictatorship only seven months ago may be confronted with a serious economic crisis.

Cuba's new leaders cannot be held entirely responsible for this. In its latter years, the Batista regime dissipated the country's resources, and foreign exchange reserves were down to an estimated $100 million. The price of sugar was the lowest it had been for a long time and the deficit in the balance of payments was around $100 million. This year, however, it may be more than double. Due to the drop in sugar prices Cuba may lose a further $50 million. Foreign investment has become a trickle and it is estimated that this lack of incoming exchange may mean a further loss of between $25 and $30 million this year. The tourist trade, which provides Cuba with an average of about $25 million a year, is virtually at a standstill. At rough estimates, Cuba may have a balance of payments deficit of over $200 million by the end of 1959.

The problem which now confronts the new Government is how it is going to carry out the social welfare measures the revolution promised. To ease unemployment the Government promised to launch a public works program later this year at a cost of some $120 million. It has also undertaken to finance small land owners and to adjust wages. There is also the cost of administering the agrarian reform program. The Government's two basic problems are 1) Unemployment, which is always particularly heavy after the sugar grinding at this time of the year. 2) Agrarian reform. If this is carried out too drastically, it could be economically suicidal and they are seeking a formula whereby the principle of reform could be kept without disruption, and by which land could be provided to the 200,000 or so peasants who are not only landless but unemployed for most of the year.

It is evident that the new Government would particularly like to come to terms with the large sugar estate owners, but it is likely that the big foreign-owned cattle ranches with large areas of unused land will be more affected. Cuba's crucial need now is to restore foreign confidence and secure foreign aid somewhere; in the present atmosphere of emotion which surrounds Cuba, neither seems very likely.

SHORT NOTES ON CURRENT ARTICLES

Argentine national income statistics

Review of the River Plate, Buenos Aires, July 21, 1959, pages 26-27. This short article discusses figures on national income in 1958, which totalled 318,400 million pesos (at current values) or about 38 per cent more than in 1957. It also contains three tables: one compares gross national product for 1955-58 at current values and at 1950 prices; the second shows a breakdown of national income from 1955-58 by individual income groups; and the third gives consumption and investment data for 1955-58 at current values and at 1950 prices.

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GREAT BRITAIN

United Kingdom exports £ 330 million capital yearly
The Financial Times, London, August 19, 1959, page 7

In the past seven years British investors have invested an average of £ 330 million abroad, which is £ 200 million more than the average net inflow of long-term capital in this country. Some details of these movements are analyzed in the latest Treasury Bulletin for Industry. The principal features revealed are that the flow of capital between the United Kingdom and the non-Sterling Area has been nearly equal in both directions, and that the net investment in the rest of the Sterling Area has averaged £ 190 million in the years from 1952.

Last year direct and portfolio investment from the United Kingdom in the rest of the Sterling Area declined to £ 187 million, or to less than the annual average of £ 210 million estimated for the past seven years. The flow of long-term capital from the rest of the Sterling Area into the United Kingdom dropped from £ 19 million to £ 13 million, although the average has been £ 20 million. One of the main items in the outflow of capital to the Sterling Area consists of the investment by oil

companies in the Middle East producing States, but no separate estimate is given for this, although it must account for about £ 80 million.

Total private investment from all sources in the Colonial Territories has risen from £ 56 million in 1955 to £ 114 million in 1957. More than half of this is estimated to have come from the United Kingdom. Separate figures for other Commonwealth countries are not given on the same basis, but the Bulletin notes that United Kingdom private investment in the Federation (without re-invested profits) has recently averaged about £ 25 million a year. Investment in Australia (including re-invested profits) has risen to over £ 50 million by 1957; and total investment in New Zealand has averaged £ 16 million a year. No yearly figures are available for India or South Africa, but it is estimated that in 1956 the value of United Kingdom investments in India rose by £ 12 million to a total of £ 305 million. Direct investment in Canada has averaged about £ 30 million a year, but when re-invested profits and other factors are included, the average works out at about £ 45 million. For the whole of the Commonwealth private investment from the United Kingdom averages over £ 150 million a year.

The flow of long-term capital into this country from outside the United Kingdom averaged £ 110 million in the seven years to 1958, but was substantially higher in 1956 and 1957. Last year it amounted to £ 123 million, the Bulletin estimates. The biggest share consists of the American direct and portfolio investment which is put at £ 167 million for 1956 and £ 121 million for 1957. Canadian investment in the United Kingdom is small, and the Bulletin suggests that there is probably a small net outflow on all other non-Sterling Area transactions. /The article contains a table giving figures for private investment to and from the United Kingdom for the years 1957 and 1958, with totals and averages for the years 1952-58./

FRANCE

Bid to achieve price stabilization
The Financial Times, London, September 1, 1959, page 7 - From Paris

Two series of measures to avert labor troubles and price increases after the holidays have been announced by the French Government. The long-awaited "Decree for Labor-Management Participation" has been published in the Journal Officiel, and a number of steps have been taken to prevent or restrain price rises.

The "Labor Management Participation" decree provides for exemption from tax and social security charges for bonuses distributed to workers for increased productivity or by way of "Workers' Shares," which will also be free of stamp duty on issue. Such bonuses must be based on a contract drawn up by management with the unions, or direct with the workers and approved by the State. The contracts must also provide for the supervision by workers' representatives over the running of their firms. This decree was discussed with the unions during the summer. They raised numerous objections to it and have now greeted its publication with general disapproval. They regard the rules for the supervision of information to workers on the running of their firms as far too vague, and they evidently feel that the rights of the established union organizations are insufficiently protected. The Christian Trades Union has made it clear that, if the Government had hoped that the publication of the decree would avert the presentation of general wage claims this fall, it is in for a disappointment.

The Government, M. Pinay in particular, still regards any general wage increases this fall as a serious threat to France's new-found stability. Therefore the second series of measures -- to prevent retail price increases -- is important. The Government has intervened in favor of reductions in the retail price of potatoes, and to limit permissible profit margins of greengrocers on certain vegetables. It has, in addition, started negotiations with manufacturers in order to prevent increases in the prices of consumer goods, of shoes, school books, and clothing.

Rain in August has improved the prospect for the vegetable crop. But it is still likely to be moderate and there is every prospect of a serious shortage of dairy foods this fall. Consequently the Government is alarmed by instances of "precautionary" retail price increases which have already been recorded. It hopes to put a stop to this old inflationary device by swift and severe legal action against defaulters. But it will probably have to import some foodstuffs which look like being in short supply, if it is to hold the line against the unions' wage campaign.

TUNISIA

Tunisia to stay in franc zone
The Times, London, September 7, 1959, page 8

France and Tunisia have signed a new financial and trade agreement. Negotiations over the agreement had been going on for more than six months and had been broken off several times. The main points of the program are: 1) Tunisia will not leave the franc zone, as has been forecast several times since the devaluation of the French franc on December 30, 1958; 2) Many French products will be given preferential Customs treatment on entering Tunisia; and 3) France will continue to purchase Tunisian hard wheat and wine at above world market prices.

The agreement will come into effect on October 1. The main problems which have held up the settlement were the price of Tunisian wheat bought by France, the amount of wine to be purchased at preferred prices, and special financial arrangements between the two countries. Under the new agreement all financial operations between Tunisia and countries outside the franc zone will be carried out through the Paris foreign exchange market. To facilitate Tunisia's position, the Bank of France will open a credit of $15 million for the Central Bank of Tunisia.

GERMANY

Discount rate raised by 1/4 per cent
The Financial Times, London, September 4, 1959, pages 5 and 8

The West German discount rate was raised to 3 per cent from 2-3/4 per cent, effective September 4. The level of 2-3/4 per cent was the lowest it had ever reached. The Central Banking Council was motivated by three considerations in abandoning the 2-3/4 per cent level which had ruled since January 9 of this year: 1) Signs that business activity in some sectors is expanding too fast for comfort. 2) The weakness of the market in fixed interest securities. 3) The upward trend of United States interest rates.

The measure is timed to achieve maximum effect. Quarterly tax payments are due on September 10, so the liquidity of the banks will soon tighten appreciably. The high liquidity of recent months has in fact greatly reduced the volume of bills

discounted with the Bundesbank. In harmony with the higher discount rates, the Bundesbank's rate for loans will be raised from 3-3/4 per cent to 4 per cent.

In a statement explaining the decision, the Bundesbank said there was no cause for concern, despite tension caused in some sectors of the economy by the summer boom, but it added the following clear-cut warning: "Sharper measures of credit policy would become necessary if the concentration of new orders and the tightening of the labor market variously observed were to be exploited to demand price and wage increases calculated to endanger the stability of the price line."

What the increase shows in fact is that the German economy has shaken off the last effects of the world recession and is once more expanding strongly. Some sectors are still operating below capacity. The coal problem remains unsolved. Yet a number of industries which had to cut back production fairly severely last year are finding that new orders are flowing in at a highly satisfactory rate. The textile and clothing manufacturers now have a backlog of orders which should keep them well occupied for a number of months ahead.

Other industries, to which the recession at worst meant no more than a slowing down in the rate of growth, are booming. Consumer demand has remained buoyant throughout and the volume of export orders has shown a spectacular increase compared with last year. Unemployment this summer has fallen to below 1-1/2 per cent of the labor force and unfilled vacancies have exceeded the number of jobless. As yet there has been no marked pressure on price levels, but clearly the opportunity for the unions to achieve higher wages is better now than any time since the end of the war.

What is remarkable about the rise in the discount rate is thus not the fact that it took place, but its smallness. The decline in the bond market is evidence of the pressure of investment demand on the available capital resources. Yet, the authorities have chosen exhortation rather than compulsion. The Bundesbank has thus given a warning -- though its decision must clearly also have been affected by the wish not to allow the differential between German and foreign rates to become too great. Compared with the action which it would have taken in similar circumstances a few years ago it has shown commendable restraint. This is an indication of the extent to which Germany has become aware of the responsibilities of a creditor nation.

SWITZERLAND

Check to liquidity of Swiss new issue market
The Times, London, August 18, 1959, page 11 - From Zürich

The provisional calendar of loans to be raised on the Swiss capital market during the second half of this year provides for issues with a total capital value of 630 million Swiss francs ($146 million), of which four foreign loans account for 230 million francs. If this loan program is fulfilled, the total value of Swiss issues made during 1959 will amount to nearly 1,500 million francs, which was the record sum raised in 1957.

The trend towards increased liquidity which has characterized the Swiss capital and money markets over the past two years has now come to an end. The most spectacular sign of this change is the increase in the yield on Swiss Government bonds

from 2.83 per cent at the end of April to 3.22 per cent at the end of June. This development does not indicate a general scarcity of credit, such as existed in 1957 when the yield of Government bonds stood at 3.93 per cent; but it shows that the excessive liquidity of the past few months has been partly absorbed again and that the resources of the capital market are no more ample now than they were a few months ago.

This change in liquidity can also be seen in the movement of other rates. Average yields on commercial bank bonds have risen; money market and bank deposit rates are also higher than earlier in the year. On the other hand the interest rates paid on savings deposits and on mortgages, rates that always tend to move behind other yields, still show a downward tendency. The generally reduced liquidity of the market also finds its expression in a substantial decline of the short-term holdings of banks, trade, and industry with the Swiss National Bank from a peak of 3,200 million francs in mid-February to 2,600 million francs at the end of June, and 2,700 million at the beginning of August.

This movement stems from several causes. In the first place, improvement in general business conditions and especially in the building activity has increased the internal demand for both short-term and long-term credits. Secondly, the liberalization of foreign loan issues has also had an effect. Thirdly, the changed situation on the capital market is also to be attributed to the fact that while in the past two years the Swiss Confederation has repaid loans of more than 1,000 million francs no similar repayments have been effected this year.

As a result the demand for new capital caused by internal and external public issues in the same period amounted to 749 million francs as against only 317 million in the corresponding period of last year. The loans of the bigger banks /62 banks/ to private borrowers on current account and the banks' advances increased from January to May by 140 million to 8,470 million and their investments in mortgages rose by 283 million to 14,938 million francs.

A further reason for the changed market conditions lies in the fact that due to the collective move to convertibility made by many countries at the end of last year and because of the rising trend of interest rates in the United States, short-term foreign and Swiss capital held hitherto in Switzerland has been transferred abroad. Although the balance of current payments for 1959 shows as large a surplus as last year, when it was estimated at 960 million francs for the twelve months period, the monetary reserves of the Swiss National Bank have fallen by 320 million francs from the end of February to the beginning of August. This throws light on the large deficit in the balance of capital movements which must have taken place in the first half of this year. The capital influx, which in the past few years had an alleviating effect on Swiss money and capital market conditions, has this year been turned into a substantial net outflow, thus exerting a tightening effect on the market.

PORTUGAL

Establishment of a development bank
Neue Zürcher Zeitung, Zürich, August 8, 1959, section 7 (in German)

Portugal has set up a Development Bank which is to further industrial and agricultural expansion. Its capital is one billion escudos ($35 million) of which

70 per cent was provided by the State and 30 per cent by private investors. The bank will operate in Portugal as well as in Portuguese territories, particularly in Angola and Mozambique. The Portuguese Minister of Finance, Dr. Antonio Pinto Barbosa, declared that the Development Bank was to be the center for the granting of credits which were necessary to achieve the aims of industrial and agricultural expansion set forth in the second development plan. The bank is to grant mainly medium- and long-term credits, but in certain instances it may also undertake direct investments. In the latter case, however, he stated, the bank would be prevented from becoming an influencing factor.

In connection with Portugal's decision to apply for membership in the International Bank for Reconstruction and Development and the International Monetary Fund, the Minister of Finance remarked that "the World Bank is an institution which can render valuable financial assistance to the current phase of economic development of our country."

SUDAN

Sudan makes some headway on economic recovery road
The Times, London, August 21, 1959, page 8

Critics of the military régime in Sudan who ask for evidence of the Government's ability to master the country's economic problems, are immediately referred to this year's cotton sales and the economic recovery which they have set in motion. These are certainly legitimate cause for satisfaction. Cotton is the basis of the Sudan economy, providing two-thirds of the country's exports and, in good years, nearly a quarter of its internal revenue. The fall in world cotton prices in the past two or three years combined with the misfortunes of draught and disease and an unrealistic pricing policy resulted in a disastrous fall in Sudan's foreign earnings in 1957 and 1958. In spite of drastic import restrictions imposed in April 1958, the free foreign exchange reserves were down to a mere £S 4 million ($11.5 million) by the end of last year.

By July of this year, however, the reserves had risen to about £S 9 million, and in addition the Gezira Cotton Board had repaid a £ 3 million loan from a British bank which had been negotiated last fall at the height of the financial crisis. In this recovery the Government's revision of the Board's selling policy last January, enabling Sudanese cotton to compete again in world markets, has played a large part. Also important have been a handsome crop for 1959 and an unexpected world demand for cotton. Unfortunately, prices are still far below those of three years ago, so that neither foreign earnings nor internal revenue from the cotton export tax have been maintained at the level to which the Sudanese were once accustomed. The result is an acute shortage of capital with a consequent need for continued austerity and foreign aid.

In its first Budget introduced in July, the Government, unable yet to resort to direct taxation because of the difficulties of collection, has sought increased revenue chiefly from higher import duties on staple foods, cotton cloth, and bicycles; and while emphasizing the need for development, it has doubled or trebled charges on fuels, agricultural equipment, and machinery. The Government also hopes to ration commodities by price instead of by decree. Licenses are no longer needed for most imports, but expenditures on imports must still be sanctioned by the Government, a practice which is frustrating to the merchants behind their empty counters.

Such austerity is a severe test of the loyalty of many Sudanese, but the Government hopes to assuage doubts by pressing on with development works. For most of these it depends on the foreign aid negotiated by its predecessors, amounting to over £S40 million in the form of credits, loans, and gifts from the United States, the United Kingdom, West Germany, and the World Bank. Just recently the Government obtained a new loan from Yugoslavia in the amount of £S5 million. In all, the military regime has simply taken up where the civilians left off. It has been lucky, as well as wise, with the cotton market so far; but it may get less of luck and need more of wisdom if it is to put the Sudanese economy squarely on its feet again.

JAPAN

Japan's rapid expansion
The Financial Times, London, August 21, 1959, page 12

The Japanese Government's economic planning agency said in a report just released that the Japanese economy had been accelerating the rate of its expansion in recent months owing to a marked increase in exports. This rapid expansion may invite further increases in capital investment and imports with a consequent deterioration in the balance of international payments.

After a slight slow-down in the first quarter of this year, Japan's industrial and mining production rose to a new high level during the second quarter. If the current level is maintained, the total industrial and mining output this year will probably show an increase of at least 17 per cent over last year. Japan's gross national income is therefore expected to show a growth of more than 10 per cent this year compared with a previous estimate of 8 per cent.

The main factor responsible for the rapid growth has been an improvement in exports. The report stated that the level of exports had risen by 11 per cent in the second quarter as compared with the first three months of this year. Other factors include a resumption of inventory building by industries, an increase in capital investment, and the continued high level of personal consumption and residential construction. The level of imports, after seasonal adjustment, showed an increase during the second quarter of 12 per cent over the first. The report warned, however, that a close watch would have to be maintained on the rate of imports and capital investment because any rapid change in these factors might produce adverse effects upon the balance of payments position.

CHILE

Economic upturn begins
The Financial Times, London, August 25, 1959, page 15

Reports that Chile has received some $280 million in foreign credits are a reflection of the steady recovery of Chilean finances. Since the new President, Señor Alessandri, took office nine months ago, advocating an austerity policy, there is encouraging evidence that the Chilean economy is beginning to recover. Industrial output, which had been showing a steady drop in 1957 and 1958, has risen by about 10 per cent.

The 1959 Budget of around $440.5 million is the first balanced Budget in almost nine years, and foreign exchange reserves at about $30 million are the

highest since the end of 1949. Copper production in the first five months of this year was almost 217,000 tons, compared with 164,000 in the same period of last year. Exports were up from 162,500 tons to 189,500 tons. The peso, which in 1958 was 1,200 to the dollar, had steadied by the end of July to around 1,050 per dollar.

The new President has been given virtual authoritarian powers over the economy for a period of one year. Thus he has been able to make cuts in Chile's traditionally overstaffed civil service and to tighten up on income tax evasion. Long outstanding debts to government contractors, amounting to about $95 million, have now been settled.

Chile's problem, however, is still inflation and this year the cost of living rose by over 22 per cent, the highest increase in almost four years. The Chilean financial authorities claim that this increase was anticipated, for earlier this year wages had been increased on an average by about 32 per cent. They argue that as the austerity program would inevitably at first bring about rising costs, these increases were granted to lessen the burden of lower-paid workers. But the pace of the rise in the cost of living is already showing signs of slowing down. In January, for instance, prices on average had risen by almost 5 per cent; in July, the rise was only about 2 per cent.

SHORT NOTES ON CURRENT ARTICLES

Rostow on growth: A Non-Communist Manifesto - By Professor Walt Whitman Rostow

The Economist, London, August 15, 1959, pages 409-416 and August 22, pages 511-512 and 524-531. These articles present in abbreviated form and with editorial comment the main points in Professor Rostow's series of lectures, delivered at Cambridge, on "an economic historian's way of envisaging the sweep of modern history." The lecturer traces the economic growth of nations through five successive stages, from the traditional agricultural society to the modern age of "high consumption." He analyzes the dynamic social, economic, political, and military forces, which have affected their growth and led to the establishment of modern governments. He also discusses the problem of lasting peace and some factors which may point the way to it. As younger nations become mature the area of power becomes diffused and world domination will become an increasingly unrealistic objective, he states. In this atmosphere a system of arms controls and inspection could be introduced, but would Russia accept such a system? Professor Rostow analyzes the pattern of growth in Russia's development, comparing it with that of the United States. He points out that Russia is a great nation on its way to becoming a modern economy and society which will be quite similar to those of the West and thus will not present any menace with which the western resources cannot deal. In closing he deals with Marxist errors and failures, but emphasizes that Communism "as a technique of power is a formidable force. . . . It is a kind of disease that can befall a transitional society if it fails to organize effectively those elements that are prepared to modernize." Its greatest challenge to the West lies in Asia and Africa -- "the challenge of creating in association with the leaders and peoples . . . a partnership which will see them through into sustained growth on a basis which will keep open the possibility of democratic government."

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WEEKLY REVIEW OF PERIODICALS

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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GREAT BRITAIN

The Tory program
The Financial Times, London, September 12, 1959, page 6

The Conservative Party Manifesto is cautious in its phraseology but there is a great deal in it. Confidence that the mood and the problems of the country call for present policies to be broadly continued has been buttressed with a willingness to take a new look at a number of important specific problems. On the face of it, the Manifesto is lacking in "hard news"; for instance, the suggestion that has been mooted for a Royal Commission to look into union practices has not been included, but in proposing to invite employers and unions to re-examine jointly their common problems the Tories are tackling a practical issue of rising importance. Except in the promise of legislation to deal with local unemployment, ways and means do not figure large in the document and the pledge not to revise the Rent Acts is one of the comparatively few precise undertakings.

The specific proposals which will attract most attention include the decision to set up a Ministry for Science, the support for replacement of the Queens, the new legislation promised to deal with unemployment, and the review of the Companies Act. The Ministry for Science may at first sound as though it were a rather airy-

fairy project, a name rather than a thing. Yet there are in fact powerful administrative arguments in its favor. It would allow the Ministry of Supply to be abolished though the Manifesto does not say so. It could remove the unsatisfactory subordination of the Ministry of Supply's scientific functions to the big brother of the Ministry of Defense and would give them direct Cabinet representation.

Even the public relations side of this proposal should be welcomed as a sign of the greater emphasis that is being put on science and on technological advance. It is rather more difficult to judge how much merit there is in the new Queens proposal, which must depend on the details of design and of financing. Certainly the orders will be welcome enough to the British shipbuilding industry.

The new unemployment proposals are a reflection of the fact that a modern economy creates much greater problems of adaptation to technological change than were ever known in the past. The main way in which Government can cope with that is by preventing the trade cycle adding to the problem of technological redundancy. All the experience since the war has been that a high level of economic activity permits unemployment in a particular area to be floated off by the general expansion. The main attraction of areas such as Lancashire with a redeployment problem has not usually been Government assistance but the prospect of obtaining a satisfactory labor force for new industry. In any further measures which are taken it will be necessary to distinguish between existing industrial areas suffering from the changes in the pattern of demand, and rural areas of poor communications suffering from local unemployment because they are unsuitable for industrial development. Providing alternative employment in the Welsh or Scottish mining districts is both economically and socially very important, but it makes little sense to try forcibly to locate new industry in Cornwall, Norfolk, the Isle of Wight, or the Highlands of Scotland.

Although one might suppose that trade unionists need protection as much as shareholders from the possible abuses of their officials it is right to welcome a new review of the Companies Act. The main single point which will have to be considered is the future of the non-voting share. It seems quite certain that any Committee would recommend against further non-voting shares to be issued. A more difficult problem is what to do with those that already exist. The Government is also concerned about the problem of takeover bids; so far the great majority of such deals in Britain have worked out well, but they certainly create some public suspicion and hostility to business. The Committee -- which would presumably also be established by a Labor Government -- would in addition be able to look at the whole question of providing information. It would be an excellent thing if British standards of providing company information were raised to the American level.

As the Manifesto claims, it is obviously important to the economy that the Conservative Government should be continued. The economic climate in which industry is now working is more favorable to the maintenance of confidence and the improvement of prosperity. Under a Labor Government taxes on industry would almost certainly be raised, and the Labor Party campaign has already indulged in an abusive and irrelevant talk on certain firms. The maintenance of a sound general economic policy is vastly more important than any particular measures, and the Conservative Party deservedly enjoys the benefits of the intangibles of foreign and domestic confidence. The Manifesto could be thought unexciting. On the other hand, the main policies which it indicates run on the right lines. /The full text of the Conservative Party Manifesto "The Next Five Years" is given on page 10 of The London Times for September 12./

GERMANY

Plan to cut coal production
The Financial Times, London, September 10, 1959, page 11 - From Bonn

About fifteen West German coal mines will have to be closed under a rationalization program submitted to Professor Erhard, Minister of Economics, by the coal companies' association. The plan aims at a reduction of annual capacity from the present 130 million tons per annum to about 122 million. The chairman of the association stated that a proportion of the mine workers thrown out of a job by pit closures would find employment elsewhere in the industry. The employers expect that within about two years dismissals and the drift from the pits will have reduced the coal face labor force in the Ruhr to about 250,000 men, compared with about 300,000 today.

In arriving at a demand for 122 million tons of coal a year, the industry's experts assumed that the competitive position of coal against fuel oil would be improved by Government action. The association's chairman said that the proposed tax on fuel oil could achieve this only if it were extended to both light and heavy oils and worked out at a level of 50s a ton for an adequate period.

The oil tax had been proposed by the Economic Cabinet but has not yet found approval in the full Cabinet. The latter has asked the Economic Cabinet to go into the whole coal situation again. Political opposition is strong to the extension of the tax to light grades of fuel oil, but the tax is likely to be imposed when Parliament reassembles in October. The association also wants the Government to look into the relative transport costs of oil and coal with a view to improving the position of this industry.

NORWAY

Development Plan
The Financial Times, London, September 10, 1959, page 5 - From Oslo

Measures to promote industrial development in parts of Norway where there is little industry, and where unemployment is normally high, are outlined in a plan which the Norwegian Government has submitted to the Storting (Parliament).

The primary aim of the plan is the encouragement of private industrial development, rather than the creation of new State-owned concerns. But State-run undertakings may be started in cases where private enterprise shows insufficient interest. In such cases, the general national economic interest will be given more weight than narrow considerations of profit and loss, it is stated. According to the Government White Paper explaining the plan, the following important measures are envisaged:

1) An increase in the capital resources of the Government's special industrial development bank (Industribanken) from Kr. 240 million to Kr. 400 million ($56 million). 2) Subsidies and/or tax reliefs for companies building plants in "underdeveloped" areas. 3) Extended facilities for the training of skilled labor. 4) Research and survey work to aid the planning of industrial development, and a revision — with the new plan in mind — of existing schemes to develop the country's communications network and hydro-electric power resources.

FINLAND

New Finnish bond loan
The Financial Times, London, August 28, 1959, page 5 - From Helsinki

The Finnish Government has announced a new bond loan which will bring some relief to holders of blocked Finnmark accounts. Foreign citizens and foreign corporations resident abroad may subscribe to these bonds with blocked marks held in Finnish banks. The issue opens on September 1, 1959, and the bonds will be dated December 1, 1959. The loan period is 10 years, with interest rate at 5 per cent. Interest for the year plus 10 per cent of the nominal value of the bond will be repaid annually on December 1. The sum thus repaid may be transferred to convertible marks or any foreign currency desired. The nominal value of the bonds is 500,000, 100,000 and 50,000 Finnish marks. Preference will be given to funds deposited in Finland prior to September 1, 1939. The Government reserves the right to limit individual subscriptions to 50 million Finnish marks.

ITALY

Italy revises development program
The Financial Times, London, September 1, 1959, page 5 - From Rome

A committee of experts has been requested by the Italian Government to restudy and revise Italy's ten-year development plan -- the Vanoni Plan -- because the results achieved in the first four years are not those envisaged in it. The Plan is really a statement of desirable objectives and of some general principles of economic policy required to achieve them. A detailed method for its implementation was not given, since it was designed as a general guidance for the Government.

According to the Vanoni Plan, by 1964 Italy would have to create 4 million new jobs so as to absorb the existing 1.8 million unemployed as well as the population increase foreseen in the ten years. All the new jobs were to be created outside agriculture. To achieve this objective an annual increment rate of 5 per cent in Italy's national income was called for. In the years following 1964, according to the Plan, the natural increase in Italy's labor force should be easily absorbed by the normal development process. "At the end of the ten years, the Italian social system would therefore achieve a degree of equilibrium it never enjoyed since the unified Italian State was established nearly one century ago."

During the first four years of the Plan, whereas the increment rate anticipated has been exceeded, the creation of new jobs has fallen short of the objective by 10-15 per cent. Thus 1.6 million persons should have found jobs in the first four years, whereas in point of fact new employment in the period amounted to only 1.4 million, leaving a gap of 200,000.

Apparently a larger percentage of total investments than was planned has been directed into technical improvements designed to cut production costs and also industrial employees. Much greater sums than envisaged have also gone to meet demands for increased wages by people already employed, thus diminishing the actual capital available for new investment. Moreover, while paying lip service to the Plan, the Italian Governments of the last four years have disregarded the guidance it set for them. As a result, after four years Italy has still almost exactly the same level of unemployment she had in 1954, when the Vanoni Plan was formulated.

SPAIN

Foreign exchange regulations
The Financial Times, London, September 11, 1959, page 9

The 48 agreed banks scheduled to operate in the newly-created foreign exchange market have received a circular from the Spanish Institute of Foreign Currency laying down the regulations governing their market operations. The circular specifies that while the agreed banks will be free to purchase foreign currency in the market for holding purposes, an authorization from the Institute will be required for purchases intended to cover any sort of payment abroad. The same regulation applies to sales of foreign currencies which will be free among agreed banks but will require an Institute authorization when payments abroad are involved, except for liberalized merchandise imports.

The circular confirmed that the banks would be free to buy foreign bank notes offered to them in Spain at prices freely established by supply and demand. The banks would be free to negotiate the acquired foreign bank notes by selling them abroad against any of the 13 foreign currencies negotiable in the Spanish market. The Institute would be a buyer of certain foreign bank notes only at rates which it would publish weekly. The date of enforcement of the technical regulations governing the foreign exchange market would be published in the official bulletin simultaneously with the floor and ceiling rates, the Institute said.

GREECE

Attracting foreign capital
The Financial Times, London, September 8, 1959, page 17 - From Athens

The Greek Government is urgently examining the modification of a 1953 law which was designed to encourage the influx of private investment capital into Greece. The modifications under consideration include the granting of increased protection to foreign companies proposing to invest in Greece in forms which involve the granting of patent rights in new industrial processes. Other amendments involve the simplification of procedures relating to the establishment of foreign companies in Greece, various relaxations of customs procedures, of exchange control measures, and of restrictions on the export of profits.

The immediate occasion for these increased incentives to foreign investment was the agreement signed between Greece and West Germany in Bonn last November, providing for unlimited credit to Greek industry from private German investors. The implementation of this aspect of the Bonn agreement has been lagging substantially behind schedule. The total approved long-term foreign investment under the law of 1953 was $64 million, but only $23 million has actually been imported.

POLAND

Experiment in rural Poland
The Economist, London, August 22, 1959, page 543

Towards the end of June the central committees of the Polish United Workers' Party and the Peasant Party discussed and approved a new agricultural program which represents one of the most significant experiments undertaken by the present Polish

Government. Before October 1956 the Government's main interest had been in industrial development; the farms had gone short of fertilizers, machines, and all sorts of building material. After his return to power, Mr. Gomulka and his new administration made available more bricks, cement, and timber, and gave orders for increased production of artificial fertilizers, agricultural implements, and tractors. Most important of all, the system of compulsory deliveries at fixed low prices was progressively reduced. This year it is estimated that the value of compulsory deliveries to the Government will be about 4 billion zlotys, while in 1954 the figure was over 9 billion.

The effects of the new policy were very noticeable by 1958. Earnings had risen, and morale was higher. Many new dwellings and farm buildings were to be seen. Individual farmers invested nearly twice as much in their farms as during the previous year. So far as agriculture was concerned, the main problem facing the Polish economy as a legacy of the Stalinist period, the problem of incentives, appeared to have been solved. But during the last twelve months there has been more progress in industry than on the land. Government planners have been concerned with the basic weakness of Polish agriculture. Eighty-five per cent of farm holdings are too small for mechanization or increased production by large-scale schemes. At harvest time it is still possible to find dozens of reapers with their hand scythes, but not a single tractor in action. On the other hand there is a superfluity of horses, and it is estimated that in 1958 they consumed more bread-grain than the entire urban population. Largely as a result of this, there has been an unfavorable trade balance in food during the last three years, imports exceeding exports on an average to the value of $27 million. Today 47 per cent of the Polish population is classed as rural, and, as Mr. Gomulka pointed out to the Communist Central Committee in June, Poland cannot afford an unfavorable trade balance in food.

The Government had set a target for agriculture to be reached by 1965, when the next five-year plan is due to end. Between 1961 and 1965, 15,000 light and 42,000 medium tractors are to be made available. By 1965 the supply of fertilizers is to be doubled compared with 1957, and agricultural production as a whole is to be increased by 30 per cent as compared with 1958. Clearly such a program can only be realized with the aid of much more capital than Poland's small farmers can raise themselves.

The Government now proposes to finance agricultural development by devoting to it during the next seven years the income derived from the farmers' compulsory deliveries, i.e., the difference between the price paid for them and their value on the free market. The total sum involved will amount to about 25 billion zlotys. About 4 billion will be put at the disposal of the county boards of the so-called agricultural circles for development in which a number of villages take part, such as drainage and irrigation schemes. The remaining 18 billion will be given to individual circles, each village getting back the amount received by the Government for its own compulsory deliveries. It is intended that the scheme, among other things, will make it possible for the circles to purchase at least 90,000 tractors by 1965. In that year compulsory deliveries will cease and it is anticipated that the circles will by then be self-supporting.

The whole scheme is highly ingenious; it puts greater emphasis on the voluntary principle than on the need for more cooperation. The money which each village receives it can justifiably consider its own -- it was Mr. Gomulka's own idea to

finance the plan in this way. Unless a circle is formed to spend it the money will remain in the bank unused. If the voluntary principle is really respected, the peasants may well be converted progressively to cooperation; and this is what the Government wants.

UNITED ARAB REPUBLIC

Syrian control of foreign banks
The Times, London, September 7, 1959, page 10

President Nasser has signed two laws making all foreign banks into corporations with United Arab Republic nationality and "Arabizing" foreign insurance companies. The laws apply to all existing and future banks and insurance companies in the Syrian region of the United Arab Republic. Under the laws, 70 per cent at least of all shares in foreign banks will have to be owned by citizens of the United Arab Republic.

The Syrian Minister of Economics, Khalil Kallas, announcing the laws at a Press conference, said United Arab Republic citizens would have to be represented on the boards of directors in proportion to their holdings of capital. Future insurance companies will be subject to the same provisions as in the bank law, except that the boards of directors will have to be 100 per cent Arab. Both laws give existing companies five years to adapt themselves to the new conditions, under the threat of cancellation if they fail to do so.

JAPAN

Reform of the Japanese banking system
The Times, London, September 7, 1959, page 17 - From Tokyo

It is a strange coincidence that just at the time when Britain has been engaged on a full-scale study of her monetary mechanism, Japan also should be seriously considering the reform of her banking system, and especially the perennial problem of the relations between the central bank and the Government. The Radcliffe Report preceded by a few days -- but not enough to influence its conclusions -- a draft plan by a Monetary System Study Council for the reorganization of the Bank of Japan. The Council was set up by the Government two years ago as an independent body, and its conclusions are likely to add more fuel to the controversy over the degree of independence and freedom from Government control which the central bank should enjoy in the wider interests of the economy.

The Bank of Japan has existed under a law, modelled after the Reichsbank Law, which marked, theoretically at least, the complete subordination of its policy and operations to the dictates of the Government. Article 43 empowered the Government to issue directives to the Bank through the Ministry of Finance, which were mandatory. Control over policy was further strengthened in 1949 by the creation of a Bank of Japan Policy Board on the lines of the Federal Reserve Board.

It was the general inadequacy -- "absurdity" would not be too strong a word -- of the Bank of Japan Law which led the Government to institute a movement for reform, rather than any specific conflict of policies. The crux of the whole reorganization of the Bank of Japan is, of course, the nature and extent of Government control. Last April the Study Council had published an interim report which laid

stress on the independence of the central bank. Although it did not commit itself on Article 43, it recommended that the Bank should be completely free to make its own decisions on its three key functions, namely, changes in the official discount rate; open market operations; and the conditions of the reserve system. But under pressure from the Government and the Ministry of Finance, the latest report leans heavily on the side of greater control. The main recommendation is that the Bank should have freedom in regard to the three major functions; but that in the event of conflict, this should be discussed by a committee composed of the Governor, the Prime Minister, and the Finance Minister. In the last resort, if the Governor fails to agree, he can only resign.

The other recommendations affect the composition of the Policy Board, the ownership of the Bank's capital, and changes in the banknote issue system. The Council proposes that the Policy Board and the Executive Board should be combined to ensure that policy making and executive functions are brought more into line with each other. As to the capital, under the present law the Government owns 55 per cent of the capital of 100 million yen, 45 per cent being held by the commercial banks or security companies. The Council recommends that the Government should own the entire capital in future. Finally, whereas now the note issue is restricted by a ceiling determined by the Finance Minister, this restriction will be abolished if the Council recommendations are adopted.

The Bank of Japan, which naturally enough has its own ideas on reform, wished for suppression pure and simple of Article 43 on the grounds that through the appointment of the Board and adoption of its report the Government could exercise enough control over its policy. But the Radcliffe Report, with its recommendations for setting up a monetary standing committee presided over directly by the Chancellor of the Exchequer, was a great surprise and a great blow, for hitherto the Bank of England had been looked up to as the epitome of all that a Japanese central bank could wish to be.

Independent experts, however, feel that the trend of the times is all towards greater control; and that it would be unwise for the Bank of Japan to set its face against the inevitable. Complete Government ownership of the Bank's capital, for instance, far from spelling outright nationalization, as its opponents argue, means in fact little change in the real position, for the private investment in the Bank was purely dictated by prestige. The Bank of Japan's solution to that problem is to dispense with capital altogether, after the New Zealand system. The removal of any note issue seems, to the conservative financiers of the Bank of Japan, to open the floodgates of inflation, which always threatens the economy of Japan. It is on this point that they mainly base their contention that what is applicable to the Bank of England is not necessarily so to the Bank of Japan. The inflationary pressures in this country, they argue, are much greater than in Britain because in matters of financial policy the Government is far more influenced by the concerted views of farmers and businessmen. Japan suffers from a chronic overpopulation problem, and her Governments are continually seeking ways of expanding employment to relieve it. In so doing, they favor rapid development of industry, with the inevitable inflationary pressures. The Bank of Japan, therefore, to preserve the balance and stability of the economy, has need of greater independence and neutrality if it is to withstand these combined forces. The debate is now in full swing and the end by no means in sight; but the Radcliffe Report has made it more certain even than before that the Bank of Japan is fighting a losing battle.

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CANADA

Canada's money worries
The Financial Times, London, September 15, 1959, page 3

The interest which Canadian businessmen have recently been forced to take in the antics of the money market has turned monetary policy into a major political issue. The immediate question is whether the dramatic rise in short-term interest rates will continue. The bill rate shot up to a peak of 6.16 per cent in mid-August and the Bank Rate, which is tied to it, simultaneously reached a peak of 6.41 per cent. Vigorous action by the Bank of Canada and a sharp reduction in the volume of bills offered succeeded in reducing the rate a little, but in the past two weeks it has been creeping up again: a large issue of bonds is due for redemption at the beginning of October, and it will be difficult to ease the pressure on the market until this has been dealt with.

The sharp rise in interest rates, coming at a time when the Government is supposed to be working for a more rapid increase in production, has caused some dismay. In Canada, as in the United States, interest rates have come up against a traditional ceiling; there is a limit of 6 per cent on the rates which the Chartered Banks may charge for loans, and if rates rise beyond that level they may be forced to put a very sharp brake on their lending. There is no reason to suppose that the Bank of Canada would be put out by this result. The rise in short-term rates has

been caused almost entirely by a massive expansion in bank loans; at the end of July they amounted to $976 million (20 per cent higher than a year before), with no less than $289 million of the increase taking place in July alone. The Bank of Canada, fearful of inflation, has kept the monetary supply fairly stable for the past year. To finance the increase in their loans, therefore, the Banks have had to sell large quantities of Government bonds and have recently begun to run down their portfolios of bills as well.

The effect of this selling on interest rates and, through interest rates, on the availability of bank loans, could be offset if the Bank of Canada were willing to go in for credit creation. But it is not. The economy, it claims, is already extremely liquid and there are already ample resources available to finance any increase in production likely within the immediate future; it would be foolish, therefore, to increase the supply of money further and store up trouble for the future. The supply of money is 17 per cent higher than it was two years ago, largely as a result of deficit financing during the recession, though production is only 7-8 per cent higher, and the velocity of circulation of bank deposits is unusually low. Higher rates will not affect industrial recovery and may help to put life back into the bond market: why try to escape them by means of measures which are bound to cause trouble as soon as the economy is booming?

This line of reasoning is plausible and familiar, but it now seems a little old-fashioned: Lord Radcliffe is being widely read in Canada. There are two points which it appears to overlook. The first is that the massive increase in bank loans is mainly the result of the collapse of the bond market. Fears of inflation, in Canada as in the United States, have made fixed-interest stocks unpopular for the moment and fixed-interest borrowing is both expensive and difficult. Company fixed-interest issues, which have averaged over $450 million in the first half of the past four years, amounted to only $67 million in the first half of 1959, and a modest increase in new issues of shares did little to make good the difference. Companies have gone to the banks, therefore, for the money they could not raise from the market, and the banks have switched their investments from bonds to loans. The second point is connected with this. Uncertainty about fixed-interest investments has caused investors to increase their liquidity and pile up savings deposits in the banks. The unusually low level of the velocity of circulation is itself due to the fact that an unusually large proportion of total bank deposits are now held in this relatively slow-moving form. The effective supply of money, in fact, has been reduced and will be reduced further if uncertainties about long-term rates persist.

Whether or not high interest rates will jeopardize rising production through their effect on building and stocks is arguable: many Canadian firms are able to borrow abroad instead of at home, piling up trouble in the future for the exchange authorities. A more serious danger is that the feeling of crisis in the money market will unsettle the bond market still further and prolong the financial distortions for which a weak bond market is mainly responsible. There is no doubt, moreover, that high short-term rates will help to keep up the inflow of hot money from abroad, an inflow which helps to solve the immediate payments problem but which hampers the country's exporters and makes it dangerously dependent on conditions abroad. The first job for the Bank of Canada is to join the many people in this country who are trying to puzzle out what liquidity is and what it implies for monetary policy. The second is to consider whether a premium dollar offers any long-term advantage to set against the very real risks they entail.

GREAT BRITAIN

Labor Manifesto pledges capital gains tax
The Financial Times, London, September 16, 1959, pages 1 and 9

The Labor Party's election Manifesto "Britain belongs to you" which promises higher old-age pensions, more expenditure on the National Health Service and a restoration of subsidies for council house building and slum clearance, says that part of the money for these measures will be raised by a "change in the tax system in order to deal with the tax dodgers and limit tax-free benefits." The Manifesto which is to be published on Friday makes three specific pledges:

1) "We shall end the scandal of the businessman's expense account racket and the tax-free compensation paid to directors who are made redundant, for example by take-over bids. 2) We shall tax the huge capital gains made on the Stock Exchange. 3) We shall block up other loopholes in the tax law such as family covenants and 'top hat' pension schemes."

The other method by which the Party would hope to raise money for social improvements involves the familiar Labor nostrum of "planned economic expansion." After alleging that the Conservative Government's economic policy "cost the country" £ 1,700 million last year, "of which the Exchequer would have received £ 450 million," the Manifesto says bluntly that a "steadily expanding national income will enable us to pay for our five-year program without increasing the present rates of taxation."

It is in this context that the need for cooperation from the unions, a point stressed by Mr. Gaitskell when he addressed the Trades Union Congress at Blackpool, makes its appearance. The Manifesto does not include anything resembling a warning or an appeal. It says simply that "only a Labor Government is ready to use the necessary controls and able to win the full cooperation from the unions by such measures as a fair shares budget policy and the extension of the Welfare State."

Detailed changes will probably be made in the draft of the Manifesto before it is published. But there is unlikely to be any retreat from the following election promises, which were approved by the Party executive at its meeting:

Pensions: Labor would by emergency legislation "raise the basic pension and other social security benefits at once from £ 2 10s to £ 3 a week; and their purchasing power will be maintained by an automatic increase to cover any rise in prices in the previous year."

Housing: "As a first step we shall repeal the Rent Act; restore security of tenure to decontrolled houses; stop further decontrol and ensure fair rents by giving a right of appeal to Rent Tribunals." A Labor Government would also "bring interest rates down" to house purchasers . . . "reform leasehold law to enable leaseholders of more than 21 years standing to buy their own homes" . . . and restore "subsidies and cheap money for council building."

Health Service: "As a minimum we shall spend £ 50 million a year on hospital development. We shall also restore the free Health Service, by abolishing all charges, starting with the prescription charge." In addition to these measures, an occupational health service would be established.

Agriculture: "The tenant farmer will obtain real security of tenure and an effective rent arbitration system such as existed until the Tories' recent wrecking measure. A special credit organization will be set up to provide loans at reasonable and stable rates of interest."

Consumer protection: "Buyers will be protected against hire-purchase ramps, and reasonable standards laid down for many goods. A tough anti-monopoly policy will bring lower prices and it will be compulsory to give the net weight or quantity of packaged goods."

Education: "Money spent on education is one of the best investments for the future. We propose, therefore, a great drive to abolish slum schools, to reduce the size of classes to 30 in primary and secondary schools and to expand facilities for technical and higher education." The Manifesto includes a pledge to abolish the eleven-plus examination and goes on: "At present, children whose parents can pay fees often enjoy an unfair advantage in secondary education. By enlarging the system of maintenance grants, we shall make sure that no child is deprived of secondary schooling by its parents' poverty."

The Manifesto is at its most reticent on the subject of nationalization, which is disposed of in two brief paragraphs. The familiar promises to renationalize steel and long-distance road haulage are repeated. For the rest, "where an industry is shown, after thorough inquiry, to be failing the nation, we reserve the right to take all or any part of it into public ownership. We shall also ensure that the community gets its slice of the profits of private industry by taking shares in large firms which dominate the nation's economy."

NEW ZEALAND

Wage increases
The Times, London, September 19, 1959, page 5 - From Wellington

The Arbitration Court has issued a decision, on an application by the New Zealand Federation of Labour, in favor of a general wage increase. The Court awarded an increase of 5 per cent on the first £ 13 of men's wages, on the first £ 9 15s of women's wages, and on the first £ 7 15s of juniors' wages, the award to take effect on October 12.

SWEDEN

Government finance and credit - By Mark Wallenberg, Jr.
The Financial Times, London, September 9, 1959, page 5

The Financial Times for September 9 contains five special pages, reviewing the progress of Sweden's economy, various aspects of her foreign trade, developments in industry, and the functioning of the Swedish labor market. The article below is taken from this special review; it was written by Mr. Wallenberg, the Managing Director of the Stockholms Enskilda Bank.

For a long time during the postwar period no active monetary policy was conducted in Sweden. This was reflected above all in a low level of interest rates. Gradually, however, the authorities came to realize the necessity of allowing certain increases in interest rates. At the same time, an "availability theory" was applied in order to control the general rate of expansion in the economy. This

meant that the total volume of investments was to be checked by changes in the supply -- and not primarily the price -- of credit through lending restrictions to be imposed on the commercial banks. From the middle of the 1950's this policy was supplemented by the introduction of a more active discount rate policy. Another main point in the economic policy pursued during this period was the ambitious attempts to direct savings to certain sectors of the economy, mainly housing and the public sector.

The stagnation in industrial production from the beginning of 1958 was accompanied by a general fall in interest rates. Increasing Government Budget deficits, mainly financed in the short-term market, and a certain increase in the gold and foreign exchange reserves also led to swelling liquidity in the credit system. This reinforced the tendency towards falling short-term and -- to a less extent -- long-term interest rates. The reduction in the official discount rate from 5 to 4 per cent to its present level of 4-1/2 per cent in May 1958 only meant an adjustment to a lower rate of interest already brought about by market forces. The fall in rates, however, turned out to be smaller than expected, and since May 1959 rates have not fallen further.

In the money market the volume of transactions has increased as a result of the Government's difficulties in the long-term financing of rising budgetary deficits. This increase in bank liquidity has caused a drop in interest rates for three-month Treasury bills from 3.5 per cent at the beginning of 1958 to 3 per cent in mid-August 1959.

In July 1957 the ceiling on commercial bank lending was abolished. It is true that the recommendation by the central bank to the commercial banks to keep a certain minimum liquidity ratio was still in force, but owing to a considerable inflow of deposits, an increase in bank lending took place in 1958. Commercial bank lending rates now generally range from 5-1/4 to 6-3/4 per cent. Increasing competition among the banks has tended to force down the rates within this range. Interest rates on time deposits with commercial banks now range from 2 to 4.5 per cent.

Since 1952 the bond market has been subject to strict control by the central bank; thus no issue of industrial bonds other than for the construction of power plants has been allowed since 1953. For the rest, the bond market has been reserved for housing purposes and for the public sector. The private sector, however, has been able to make up for some of the implications of the loss of access to the bond market through long-term credits direct from the insurance companies. These are traditionally the dominant savings-absorbing institutions in the bond market. The planned introduction of a Government-run compulsory pensions system, resulting in an expected decrease in individual willingness to save, has caused a general circumspection in the lending policy of the insurance companies. A factor which has lately begun to affect adversely the growth in the lending capacity of the insurance companies has been a decreasing interest in the traditional forms of life insurances. However, some of the effects on the capital markets of these developments are thought to be counteracted by the creation of a huge public fund to be formed out of the obligatory pension fees.

The factors affecting the development of short-term interest rates have influenced the bond market too. The actual yield on Government securities with ten years to maturity has fallen from 5.25 per cent at the beginning of 1958 to 5 per cent in August 1959.

In the stock market, prices of Ordinary shares have risen steadily during the last 18 months, causing a fall in actual yields from about 4.5 per cent at the start of 1958 to 3.5 per cent in mid-August 1959. A considerable increase in the demand for shares, due to a widening public interest in common stocks, has not been met by an increase in the supply of new issues. This is due to the fact that the financing of investments through the issue of new shares is very expensive, because the rate of taxation on company profits, whether retained or distributed, amounts to about 57 per cent. However, some improvement will occur in 1960, when the rate will be reduced to around 48 per cent.

One can already now discern some factors that in future will have a decisive influence on economic policy and on the functioning of the credit markets. Above all, there are the effects on economic policy emanating from the different schemes of closer cooperation in the trade between countries in the free world, as well as the successful first steps to tie the Western world's currencies together on a fully convertible basis. Individual countries will meet considerable difficulties in pursuing an inflationary policy of the earlier postwar type, which will make them return to an economic policy principally by regard to their competitiveness in the world markets. There are signs that concern has arisen within the Swedish Government about the tendencies towards rapidly increasing budget expenditures. This implies a greater circumspection in the future concerning the adoption of costly projects, making possible further steps towards the normalization of the Swedish credit markets.

CZECHOSLOVAKIA

Switzerland of Eastern Europe - By a Special Correspondent
The Economist, London, September 12, 1959, page 842

For the first time since before the war, the engineering fair at Brno has been made an international show. The wide range of engineering products and the colorful and well-designed fairground which sets many western fairs to shame testify to the economic prowess of the "Switzerland of eastern Europe."

Although the picture of Czech prosperity has its flaws, the Czech economy gives an impression of underlying strength. Relatively little damaged by the war, the country's traditional industries provided the planners with a sturdy base to build on. Standards of life do not compare with Britain's, it is true: real wages in terms of purchasing power for consumer goods are perhaps a good third lower. But real wages are rising year by year. Russians and Poles come to Prag to shop for a wide range of durable consumer goods.

In the investment industries, the characteristic Communist achievements can be plainly seen. Czechoslovakia already occupies a key place in the development plans of the Soviet block. It has won notable contracts in undeveloped countries. The engineering industry today covers some four-fifths of the range of engineering products that are made in the world.

One notable economic feature distinguishes Czechoslovakia from Russia or East Germany. Income differentials are remarkably small. In East Germany the need to compete with western standards of pay for management has fixed a biggish gap between privileged and poor. In Russia the gulf between top-pay technocrats and unskilled workers yawns even wider. Czechoslovakia is far nearer to an older

Communist ideal or, for that matter, to Britain. Workers' pay ranges from 800 to more than 2,000 crowns a month ($56 - 139 at the tourist rate of 14.34 koruny per dollar) and the best-paid skilled worker may get more than the don or the foreman. Engineers' salaries range modestly between 2,000 and 3,000 crowns. This may in part reflect the fact that in economic matters the worker as a group, indispensable to the régime, still enjoys considerable power. This has meant moments of strain when the régime has sought to cut back wages. But in the long run it is a source of stability and strength.

Since Mr. Macmillan went to Moscow, a good many Czech officials have been suggesting that especially favorable opportunities await Britain in trade with their country. The attempt to distinguish between one western state and another has, of course, a political motive. Economically, there obviously are opportunities for some growth of trade with the West. The Czechs are interested at present in capital goods for chemicals, metallurgy, and the metal industries. They will always be interested in the latest western technical developments.

But there is much in the view of many western businessmen that the only major export opportunities are for goods that are not produced at all in the eastern camp. Ask a Czech official whether he can visualize a major expansion in mutual trade in consumer goods, and he will point to the instabilities of western markets which raise such problems for the planner. The Czech planners seem prepared to buy a few western consumer goods to give a little color to life. But there is no deep interest in buying goods in the West just because they are made more cheaply there than at home. Czech trade officials suggest that long-term trade agreements and more generous import licensing in Britain may help to expand trade between the two countries. But their own central purposes remain unequivocal: to develop economic cooperation and strength of the Communist countries; thus, they believe, they will increase their bargaining power with the capitalist world.

PHILIPPINE REPUBLIC

Move to expand currency
The Times, London, September 14, 1959, page 15

The Central Bank of the Philippines has authorized the inclusion of four more currencies to the country's international reserves in order to stimulate trade with countries outside the dollar area. The Central Bank authorized its agent banks to open and maintain accounts abroad in sterling, the Canadian dollar, the Swiss franc, and the Deutsche mark. Acceptance of these currencies as part of the Philippine international reserve was authorized by Congress during its last session to build up the country's multiple currency system.

ARGENTINA

Budget estimates 1958-59
Bank of London & South America, London, Fortnightly Review, Aug.29, 1959, pp.816-818

In a broadcast on August 7 the Minister of Economy, Señor Alsogaray, stated that the estimated Budget deficit on the 1958-59 Budget accounts would be of the order of 40,731 million pesos ($490 million). The Minister pointed out that this is not a final figure and that means must be found for reducing it before the end of the financial year on October 31. He added that a solution to this problem was being devised.

The main factor in the over-all deficit is the combined deficits and expenditure commitments of the State enterprises. Señor Alsogaray announced five immediate objectives by which the deficits in the national accounts might be reduced:

1) The Government will soon announce a plan aimed at reducing the deficit on the railways and at reconstructing the railway system. 2) There is to be a change in investment policy. A system of priorities will be drawn up to deal with the problem of the capital expenditure programs of the State enterprises. This system will include those indispensable agencies and services which the State is to retain or place under its direct authority; their capital commitments will be refinanced on a long-term basis at reasonably low rates of interest. Organizations excluded from this system will be turned over to private enterprise. The Minister stated that the greater part of the foreign credits obtained and the credit policy of the official banks would be directed towards stimulating and encouraging private enterprise and to extending the scope of its activities to sectors from which it has been excluded for many years. 3) There will be a reduction and reorganization of the public administration which will reduce the number of State employees by 80,000 in the current year. The Government is to establish a new category of employees whose working day will be four hours, for which they will receive 60 per cent of the salary for a similar full-time worker; this will be financially comparable to the dismissal of a further 70,000 employees. 4) There is to be a reduction in the Budget of the armed forces. 5) There will be a reform of the tax system with special reference to the promotion of investment and the checking of tax evasion.

SHORT NOTES ON CURRENT ARTICLES

New York as an international money market - By Frank Tamagna

Banca Nazionale del Lavoro, Rome, Quarterly Review, June 1959, pages 201-234. Professor Frank Tamagna of American University, Washington, D. C., discusses the rise of New York from local to world leadership in financial markets. This rise may be directly attributed to the impulse given by the Federal Reserve System. The writer examines the structure of the market from various points of view and discusses in several chapters the financial organizations and their functions which lend an international character to the New York market. New York's position as a world leader has come about by the shift of the United States from a debtor to a creditor country after the first World War and by its present position as the world's largest reservoir of financial resources.

Monetary policy in a critical period in Latin America - By Sir G. Bolton

The Times, London, August 10, 1959, Supplement on Latin America, page ii. Sir George Bolton, Chairman of the Bank of London & South America, in this brief article comments on central banking legislation in Latin America which, he states, is more formal than that in the United Kingdom. He describes the great variations from one country to another in the application and supervision of monetary laws. The chief problem in these countries is a lack of savings and the tendency to keep cash reserves abroad where they do not contribute anything to the financing of national development. Necessary credits for that purpose must be obtained from outside the banking system, often at tremendous cost. There will be no improvement in this situation, Sir Bolton declares, until a greater degree of monetary discipline is exerted, especially in the larger countries.

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GREAT BRITAIN

A Commonwealth Bank?
The Statist, London, September 5, 1959, pages 184-185

One of the most interesting questions to be debated by the Commonwealth Finance Ministers at their meeting is the desirability or otherwise of promoting a Commonwealth or Sterling Bank. Ministers representing all Commonwealth Governments considered this same question when they met at Montreal last September. Their unanimous report contained this item: ". . . We decided to consider this proposal again after decisions have been taken in regard to any expansion of the resources of the International Bank and the International Monetary Fund." The implication here was that should Britain's initiative in urging this dual expansion prove successful then the need for the suggested new institution would be lessened. It is quite true that many experts have been doubting the wisdom of a proliferation of international financial institutions. The Free World already has at its disposal the resources of the World Bank, the International Finance Corporation, the United Nations' agencies, the United States bilateral aid agreements, and the Colombo Plan, not to mention the "dollar goods" resources of the United States Export-Import Bank.

The dominant emergent factor in this, the second half of the twentieth century, is the shortage of capital, of the real and appropriate physical output to meet all world development needs. Even Britain, a mature economy, the Radcliffe Committee mooted, may find a conflict in the allocation of such resources as between domestic and oversea development.

In this connection it is intriguing to find the Radcliffe Committee suggesting that Britain might seek an international loan to strengthen her overseas lending ability and that Commonwealth countries should be encouraged to borrow outside the Sterling Area. In Britain, to judge from published documents, Government and Opposition alike jointly hold -- at any rate for domestic financial purposes -- one fundamental financial tenet: that any subsidy granted should be open, not concealed. A loan granted at a rate below that available in the international capital markets amounts to a concealed subsidy. Could it be that a Commonwealth or "Sterling" Bank would have precisely this objective? If so, this objective would run directly counter to the aspirations of the Montreal Conference on liberalization of world economic and financial relationships.

It was the late Dr. Harry White, it may be recalled, who first suggested that Britain's war-contracted sterling debts should be taken over by the International Bank. Yet in the famous 1945-46 U. S. loan negotiations, it was Dr. White and his team who resisted all Press references to the Roosevelt-Truman thesis that the money costs of the 1939-45 war should be shared by the partners in proportion to national incomes. Had this principle been pursued to its logical end, or even had the Herter 1948 suggestion of a conference on the subject been adopted, there would have been no need for the Radcliffe Committee -- or for Sir Oliver Frank's before it -- to have mooted an international loan to strengthen Britain's central reserves.

The obvious objection to Britain's "borrowing" what was hers by moral right is that her international accounts would necessarily be burdened by annual loan charges cramping her style as an overseas lender. The Radcliffe Committee, without however looking deeply into the matter, was rightly not enamored of the suggestion that Britain's sterling war debts, vicariously contracted on behalf of the whole alliance, should now be taken over by the International Monetary Fund. For this issue mainly concerns Britain and the United States, and only indirectly the diffuse membership of the Fund. Nevertheless, the relative weakness of Britain's central reserves -- relative, that is, to her expanding external calls -- was a determinant factor in other important issues considered by the Radcliffe Committee and which bear directly on the yea or nay of a Commonwealth Bank. Would Professor James Meade, for example, have pleaded for a fluctuating sterling exchange rate had he felt satisfied that the United Kingdom central reserve was, like that of the United States, impregnable? Professor Robbin's case for a fixed sterling exchange rate has won through, but it should surely have been backed by a plea for the cancellation of Britain's external debts under the 1945-46 Washington and Ottawa war-inherited loan agreements. In both America and Canada important voices have in recent times been heard urging precisely this.

In the increasingly important sphere of Commonwealth and world economic development Britain and the United States -- despite the help now becoming available from a resurgent European Continent -- remain the dominant partners. With shared strength, and given the many international "aid" institutions in which they already participate, the need for a specifically "Commonwealth Bank" recedes.

Capital spending in 1960 - No boom yet
The Times, London, September 18, 1959, page 15

The Board of Trade has published the first results of its latest inquiry into capital spending by industrial firms. They certainly show that industry's views have changed for the better this year and that fixed capital expenditure by private industry and business will be slightly greater during 1959 than had been estimated at the beginning of the year. But they give no sign that anything in the nature of a re-equipment boom is just around the corner. Far from it. As the Board of Trade Journal puts it: "During 1960 expenditure by these broad groups of industries taken together is at present expected to be slightly lower than during 1959."

Preliminary forecasts indicate that capital spending next year will be about 5 per cent lower than this year, with expenditure on plant, machinery, and vehicles again lower by about one-tenth, but with expenditure on building work very slightly higher than in 1959. The distributive and service trades, which have shown such significant increases in recent years, also suggest that their capital spending will either level off or even fall next year. But, as the Board of Trade is quick to point out, these estimates for 1960 are by their very nature extremely tentative. If the capital goods trades began to revive strongly this fall all these forward estimates might have to be revised quite quickly.

FRANCE

Agreement on next French Budget
The Times, London, September 24, 1959, page 9 - From Paris

The Council of Ministers on September 23 approved next year's Budget, which is now subject only to possible last-minute adjustments. The deficit, as expected, will be limited to about 600,000 million francs ($1.2 billion). Limitation of the deficit to that figure was introduced about 2 years ago by the then Finance Minister Gaillard. The check of that decision on the inflationary process has been an important, if little recognized, contribution to the present monetary stability.

One of the most unpopular and least productive of the financial decisions made at the beginning of this year was the stopping of the pensions of ex-service men suffering from no disability. The ex-service men's associations, a most powerful pressure group in the country, reacted violently and have been clamoring for a restoration of the pensions ever since. They now receive partial satisfaction, for it was announced that 500,000 ex-service men who were deprived of their pensions in January will have certain payments restored to them. The Budget is also understood to allow for a small increase in pay, believed to be about 2 per cent, in the Civil Service and the nationalized industries.

AUSTRIA

Success of "Federal loan of 1959"
Deutsche Bundesbank, Frankfurt a/M., Press Reviews, Sept. 18, 1959, p. 7 (in German)

The second tranche of the "Federal loan of 1959" in the amount of 1 billion Schilling ($38.5 million) floated on September 14 was oversubscribed in just a few hours. The Ministry of Finance gave immediate permission to raise the amount to 1.2 billion Schilling, and no further applications were accepted.

Although the success of the loan was generally regarded as a sign of new financial and economic optimism, the Socialists complained that the rate of interest at 6-1/4 per cent on the second tranche was unnecessarily high, and that the same result could have been achieved with a rate of 5-1/2 per cent or at most 6 per cent. The first tranche of the loan, amounting to 1.8 billion Schilling, was opened for subscription last April and carried an interest rate of 7 per cent. The Ministry of Finance, nevertheless, is highly pleased because it now appears possible that the proceeds of the two tranches will be sufficient to cover an outlay of almost 3 billion Schilling for investments planned in the current extraordinary Budget. It is even hoped that with the aid of future internal loans, several danger spots inherent in the 1960 Budget may be safely circumnavigated.

FINLAND

Record Budget
The Times, London, September 15, 1959, page 8 - From Helsinki

The Budget which the Agrarian minority Government published on September 14 is bigger than ever. Estimated expenditure amounts to 334,700 million Finnish markkaa or about $1,041.8 million. To meet this, the Government will require new loans amounting to 28,000 million markkaa, which many observers believe will not be easy to raise.

The Government proposes to spend 6,000 million markkaa on increasing industrial productivity, 13,500 million on subsidies for the food industry, 1,000 million on the railways, and 7,000 million on the roads. The amount earmarked for unemployment is 25,400 million markkaa, which is generally considered much too small, even if the idea of unemployment insurance is accepted by Parliament this fall. Expenditure for defense, it is estimated, will come to 2,900 million, and an amount of 200 markkaa is earmarked for new coastguard vessels. Provision is also made for an atomic research reactor to cost 140 million markkaa.

The Budget debate opens the political season. The foremost question is whether the Agrarians will agree to the idea of broadening the basis of the one-party minority Government. The Agrarians have insisted that the Budget comes first and that the question of Government changes does not arise until the Budget has been passed. It is certain that the Budget proposals will not be applauded by the Opposition, which suspects the Agrarians of never having had any real intention of taking other parties into the Government if this can be avoided. The general feeling, too, is that the Agrarians are not wholly averse to the idea of taking Communists into the Government. But they dare not take this step alone, and all the other parties, except the Socialist opposition group, have firmly refused cooperation with the Communists. The chances of overthrowing the Government in the Budget debate are very slim indeed.

UNITED ARAB REPUBLIC

Financing the Suez Canal
The Financial Times, London, September 18, 1959, page 6

At this moment, Dr. Abdel Moneim el Kaissouny, Finance Minister of the United Arab Republic, is in London on important and urgent business. Three years after the Anglo-American withdrawal of the moneys tentatively promised to finance the new

High Dam at Aswan, Dr. Kaissouny is seeking a British loan. This time it is for the development of the Canal itself. Egypt's policy of diplomatic balance needs the financial support of both the Soviet and Western blocs. Industrial and agricultural development is essential to Egypt's survival. At the moment, the Soviets have the lion's share of this, both in Egypt's general industrial development and in one of her two largest projects, the Aswan Dam. Western participation in the other large development project -- the Suez Canal -- is wanted as a counterbalance. Egypt's other development projects stand or fall by the moneys these two will earn or supply at their completion.

Traffic through the Suez Canal has risen steadily. The daily average of 43 ships passing the Canal went up to 48. Last year an "all-time high" of 84 in transit in a day was reached. With the gradual recovery of world trade from the recent depression this figure can be expected to rise in the future. Even before nationalization the Canal was a source of pride as well as resentment to the Egyptians. Their success in keeping it running after the withdrawal of the European pilots in September 1956 was a considerable fillip to their morale.

Mohammed Yunis, the Engineer Officer who took over the Canal, took over with it plans and development projects of the old company. The current project, the eighth since the Canal's construction, will be completed next July. It will make transit possible for ships of up to 45,000 tons, drawing up to 37 feet. He took over also, however, the much more far-reaching plans of the company for a second canal parallel to the first, to end once and for all the tedious and expensive process of daily convoys through the Canal. Renamed the "Nasser Plan," it is now to become the second of the new régime's two major economic projects.

The scheme at the moment is no more than a distant project, however. Since June of this year it has been under the scrutiny of General Wheeler and the experts of the World Bank. Initial agreement was reached after some hard bargaining for a World Bank loan of $104 million; it remains to receive final approval at the forthcoming meeting of the Bank's directors in Washington.

The Plan is divided into five stages, the first of which it is expected to have completed by 1964 when 40 miles of the Canal should be open to two-way traffic. Preliminary work is said to have begun already. The present loan is only to cover the cost of this first stage.

With the negotiations of the Bank loan goes also the problem of contracts. A number of countries have shared in previous contracts; but the contracts offered by the "Nasser Plan" are so much larger than any of these that a good deal of competition may be awaited for them.

There remains a political aspect to the loan of which a good deal of discussion may be expected. This is the Egyptian blockade of the Canal to ships Israel-bound or Israeli-registered. The Israeli Government and Israel's friends have every interest in preventing the World Bank loan being granted unless freedom of transit is promised to Israeli shipping. But present indications are that the World Bank will probably not attempt to tie a political string on to their loan. The question which Dr. Kaissouny must be asking is how far British participation, with a consequent British re-entry into Egypt's market, now dominated by Russia, Czechoslovakia, and Communist China, can be expected.

INDONESIA

Rupiah reform
The Financial Times, London, September 22, 1959, page 5

Indonesia's devalued banknotes will be withdrawn from circulation on January 1, 1960, according to a Presidential Decree. The banknotes involved are the 1,000 and 500 rupiah notes, which lost 90 per cent of their face value in the monetary reforms of August 25. The Government said it wanted to discontinue the circulation of these devalued notes as quickly as possible and thus it had restricted the period in which they could be changed.

The Antara News agency reported that all railway companies in Indonesia have now been nationalized. The agency also reported that Dr. Djuanda, First Minister, had instructed all Dutch companies, which were under Indonesian Government control or which had been nationalized, to put their deposits or accounts into State banks or Government-controlled banks. Dutch companies which still have credit relations with non-Government banks will be allowed to continue their business with these banks until they have ended their obligation to repay credits. According to Antara, Dr. Djuanda also announced that all nationalized or Government-controlled Dutch companies in Indonesia must put aside for compensation 1 per cent of their gross income from this year at each closing of the balance books.

COMMUNIST CHINA

China's painful stocktaking
The Economist, London, September 5, 1959, page 748

China's Communist leaders have had a disturbed two months dealing with natural disasters and the consequence of human folly, largely their own. They have been forced to undertake a painful revision of their economic plans, and they have had to shorten the length of the "leap forward" for this year. The figures announced in April by Mr. Chou En-lai, the Prime Minister, have been quietly dropped; the original second five-year plan for the years 1958-62, having earlier been condemned as unrealistic in the sense that it was not ambitious enough, has now been readopted. All the star performers in the leap-stakes have considerably lost in brilliance: the cotton target now goes down by 55 per cent, from 5.2 million tons to 2.3 million; and grain by 47 per cent, from 525 million tons to 275 million. In steel production, the target has been lowered by 33 per cent, from 18 million to 12 million tons. Coal, with a reduction from 380 to 335 million tons (only 11 per cent) remains the lightest casualty.

While they were thus felling targets like nine-pins, the ever-watchful members of the Central Committee spotted a new deviation. The emergency directive of August 13, issued when the Committee was in camera at Lushan, in addition to announcing emergency measures against drought, flood, waterlogging, and insect pests, contained also the first public attacks on a certain "rightist tendency" among the cadres. The offenders are charged with blindness to past achievements and to the great creative powers of the masses; their unjustified pessimism makes them fix lower targets than those demanded by the "continuous forward leaps" drive. In view of the ruthless reductions of this year's target figures, the admonition can be plausibly interpreted only as an admonition from the Central Committee down to the rank and file that now is no time to relax.

Some of the humbler party men are thus being blamed for their lack of ambition; all the same, the planners in the Central Committee were forced to climb down. The Committee's report contains plenty of evidence that at the Lushan meeting a compromise had to be hammered out between the ruthless thrusters and the cautious go slow men. Although the tone of the report is still ambitious, its aims are in fact moderate; there are other indications of two conflicting attitudes towards planning.

The agricultural communes, at the time of their inception last summer, were much publicized in China as the main instruments of the great forward leap; clearly they were the creation of the ambitious men on the Central Committee. Since then the claims that were being made for the communes have been toned down. Although they are to be kept in being, the Central Committee has now directed plenty of implied criticism against them. The labor power allocated to getting in last year's bumper harvest was inadequate; "reaping, threshing and storing were all done in a somewhat hurried manner"; last winter, the sown acreage was "somewhat reduced"; finally, the communes will no longer be expected to make a significant contribution to China's industrial output. The victory of moderation in planning and the necessity of admitting grave errors in calculations of past achievements may have deprived some of the Central Committee members of considerable former prestige. It is also likely that Peking will listen more readily in future to advice from Moscow on economic matters. There is another possible repercussion; however diluted they have been by rhetoric, the Central Committee's admissions of failure can hardly come as anything but a shock to those Asians who have been inclined to regard the Chinese experiment as a model for rapid economic development.

COLOMBIA

Stabilization of financial position
Neue Zürcher Zeitung, Zürich, September 6, 1959, section 12 (in German)

Thanks to strict enforcement of a "tightened belt" policy, the enormous foreign debt which the Government of President Lleras Camargo inherited from the former dictator Rojas Pinilla has almost disappeared. In the two years since the fall of the Pinilla Government, the private and public short-term debt has been reduced from $550 million to $80 million. This was possible only because of a sharp throttling of imports. The yearly Colombian export volume amounts to about $600 million, but only about $340 million worth of import licenses were issued, thus freeing an amount of about $260 million each year for debt redemption.

This figure is all the more remarkable since the price for Colombian coffee -- which only five years ago was at a record level of up to $1 a pound -- has dropped to about 40 cents. Although the Federación de Cafeteros was able to stabilize coffee prices by permitting only limited quantities of coffee to reach world markets, this freezing of surpluses was expensive. More recently coffee prices have recovered somewhat and coffee is now quoted at 46 cents.

The impact of strict import controls is perceptible here and there in shortages of supplies. It also appears that the anti-inflationary restrictive credit measures, which were introduced at the suggestion and under the supervision of the World Bank, have led to a certain stagnation in some economic sectors. It is comparatively easy to obtain agricultural credits but very difficult to get a bank credit for industrial purposes. This is because the Government has been pursuing a special policy of widening the basis of agricultural production in order to minimize the

danger of dependence on the world coffee market. As a matter of fact, good results have been obtained with a cotton crop which yielded enough not only to satisfy all domestic demands but also to furnish some cotton for exports.

The World Bank has shown its confidence in the improved financial position of Colombia by making available this year about $15 million for the construction of several power stations; and more credits are to come. It is also expected that the Export-Import Bank and other North American institutions will extend credits in a total amount of $250 million, and it seems that a sizable portion of these credits will be utilized for road construction. In this way isolated areas will be opened up and will be integrated into the national economy. The road construction program will also counteract unemployment very effectively. It is really astonishing in how short a time President Lleras has succeeded in bringing order into Colombia's financial affairs, thus giving rise to renewed optimism regarding future economic prospects of the country.

BRAZIL

Finance - Future foreign exchange commitments
Bank of London & South America, London, Fortnightly Review, Sept. 12, 1959, p. 874

After an interval of nearly 18 months the Superintendencia da Moeda e do Crédito (SUMOC) has resumed publication in its monthly Bulletin of figures of Brazil's foreign exchange commitments, which amounted to $1,435 million and $2,078 million, excluding interest, at the end of 1957 and 1958, respectively. On the basis of the 1958 total SUMOC has calculated annual repayments (in million U. S. dollars) as follows: 1959: 324.2; 1960: 295.4; 1961: 294.5; 1962: 229.2; 1963: 182.4; 1964: 127.0; 1965: 88.2; total repayable after 1965: 537.6.

The estimates of repayments based on the 1958 total call for heavy allocations of foreign exchange over the period 1959-64. In view of the expected deficit in the balance of payments for 1959, it is believed that Brazil may negotiate for the postponement of a large part of the debts due this year; however, no official statement on this matter has so far been published.

SHORT NOTES ON CURRENT ARTICLES

Cohen Council Mark III - By C. T. Saunders

The Bankers Magazine, London, September 1959, pages 174-177. Mr. Saunders, the Director of the National Institute of Economic and Social Research in London, reviews the findings of the third Cohen Council Report. /The Cohen Council was set up in 1957 to "keep under review changes in prices, productivity and the level of incomes." - See also Weekly Review of Periodicals, Apr. 11, 1958, p. 1 and Sept. 5, 1958, p. 1./ He reports that the interesting part of the Third Report is the Council's "urge to find less painful methods of avoiding inflation." The Council's special concern - price stability - is discernible in its recommendations. More price stability could be secured in this time of expansion, the Council suggests, if firms would reconsider their price policies and aim at a lowering of their prices. The Council also considers the question as to whether some more rational method could be applied to keep the growth of money in line with that of physical output. Mr. Saunders also discusses the Council's views on the possibility of some kind of "wages policy."

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This review, compiled at Board of Governors of the Federal Reserve System, in no way represents the views of the Board, either in the selection or manner of condensation of the material included. It aims to cover briefly articles that are of interest from a monetary and banking standpoint.

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INTERNATIONAL COOPERATION

Common Market proposals for other OEEC nations
The Financial Times, London, Sept. 25, 1959, page 11, and Sept. 26, 1959, page 7

The President of the European Economic Commission, Professor Walter Hallstein, proposed the setting up of a European liaison committee to smooth the relationship between the six-nation Common Market and the other member countries of the Organisation for European Economic Cooperation. This suggestion was one of a series of new proposals which he made in a major speech to the Parliament of the six-nation Community, meeting in Strasbourg.

In reply to a question as to whether the Commission really wanted a multilateral European Economic Association at all, Professor Hallstein admitted that the proposals of the Commission (as the previous ones made earlier this year) did not contain any reference to a multilateral European Economic Association. He stated that the Commission was not against it, but that it recommended a different method. "The method we have adopted is to let the fundamental question rest for a while, but to seek a way out of the present deadlock."

He stated, moreover, that the question raised was too general, and that the Commission could not answer "yes" until four major conditions were fulfilled: Any solution must be technically possible; it must be politically acceptable, since the Commission could not itself decree a solution; it must not prejudice the existence of the six-nation Community; and it must take into account the Community's relations with countries outside Western Europe. Agreement among the Six had not been reached on all these points, he said; therefore, the Commission proposed a series of liberal trade measures which, without compromising the positions of principle of the six member Governments, could go a long way to easing the problem of association. The measures, which fell into five main groups, were as follows:

1) Quantitative restrictions: The Commission proposed the gradual abolition of all quotas on imports of industrial goods from all non-member countries, on a reciprocal basis, with additional increases in nil and negligible quotas.

2) Tariffs: (a) The Community should declare its readiness to extend to all countries the coming second round of internal tariff cuts (10 per cent) to take place in the Common Market; (b) Talks should be held with other European countries to give the next round of negotiations of General Agreement on Tariffs and Trade the maximum effect; (c) The Six should propose a further round of substantial tariff cuts after the 1960-61 GATT conference; (d) To ease any acute difficulties which other European countries might experience, tariff quotas should be negotiated for them insofar as they were compatible with GATT.

3) Cooperation with other major economic units such as the United States and the British Commonwealth, for aid to underdeveloped countries.

4) European liaison committee: A committee representing the Community on one hand, and the other European countries or group of countries on the other, should be set up.

5) Strengthening the Common Market: Professor Hallstein made two specific suggestions, (a) that the process of establishing the Common Market be speeded up by cutting down the transition period, and (b) that there should be closer coordination of the economic and monetary policies of the Six.

Broad approval of the new proposals was given by the members of the Community's Parliament. The suggestion of a European liaison committee with its seat either in Brussels or Geneva was described as particularly helpful. The proposals were approved by all six national delegations in the special committee set up to deal with matters of external trade policy, and it is now up to the six Governments to whom the proposals have been submitted.

NETHERLANDS

Budget for 1960
Neue Zürcher Zeitung, Zürich, September 19, 1959, section 3 (in German)

Finance Minister Zijlstra has submitted to Parliament a draft Budget for 1960. Expenditure is estimated at 9,261 million guilders ($2,454 million) and revenue at 8,310 million, leaving a deficit of 951 million guilders. This compares with an estimated deficit of 1,318 million guilders for 1959 which, however, is expected to rise to 1,850 million because of additional expense in connection with the

liquidation of the European Payments Union and the increase in the quota to the International Monetary Fund. The Minister indicated that the deficit would be covered by 625 million guilders to be raised in the capital market, and the rest would be covered by other income from various sources.

Expenditure in 1960 for national defense is estimated at 1,652 million guilders; in addition, there will be an outlay of 50 million for civilian defense. An amount of 1,431 million has been set aside for educational and cultural purposes, and 1,121 million for residential construction. Redemption and interest payments on the national debt will require 1,014 million guilders. During the past year the national debt has risen to 17.4 billion guilders, but the foreign debt was reduced by 334 million to 1.7 billion. With regard to revenue, about 3,198 million is expected to come from indirect taxes, and 4,186 million guilders from income, profit, and property taxes.

In his budget speech the Minister warned that great restraint had to be exercised both in the private and public sectors in order to maintain equilibrium in the economy. He stated that an increase in consumption could only be justified by a corresponding increase in production. Monetary equilibrium must be the basis of financial policy. Special attention will have to be given to the creation of opportunities for employment, and more industrial development is to be encouraged. Also it is absolutely necessary to maintain the present level of saving, he stated.

In analyzing the Budget, it becomes clear that the very high deficit is a dangerous sign, all the more since the year 1959 so far has proved to be the best postwar year and since 1960 is expected to continue this trend. The Finance Minister voiced his disappointment that the Government was unable at least to balance the Budget, not to mention a small surplus. After the war the public debt decreased gradually from its record level of 28.3 billion in 1948 to 18.2 billion guilders in 1958. In 1959, however, the debt has been rising again, and in 1960, despite boom conditions, it is expected to rise to at least 19.7 billion guilders.

It is a matter of grave concern that under the circumstances nothing is being done to cut expenditures, but that recourse is being taken to the capital market to cover very conveniently both the 1959 and 1960 deficits. Minister Zijlstra said he favored a drastic reduction in the number of civil servants who had grown from 24,000 in 1952 to 119,626 at the present time. All in all, the Budget is a bitter disappointment for the Dutch people who suffer under an almost unbearable tax burden. It was expected that the new Christian-Liberal Party would at least make an effort to reduce public expenditure, but it seems the Government is expecting restraint on the part of the people and the economy without being willing to make a change in its own policy. The future for the Dutch financial policy looks indeed alarming.

Government concern over wage policy
The Financial Times, London, September 30, 1959, page 5 - From The Hague

Considerable confusion now reigns in Holland with regard to the Government's new wage policy. The Government is plainly concerned about the speed with which the economy is re-expanding; the tightness of the labor market is causing particular anxiety.

There is now little doubt that the Government is trying to put a narrower interpretation on its general rules regarding the circumstances in which wage increases may be granted than it seemed to imply when these rules were first formulated in July. In particular, Ministers are trying hard to wipe out the popular impression that the 5 per cent wage increase recently granted in engineering can be regarded as a yardstick by other industries.

The next important contract to come up for approval by the official Council of Mediators is that for the printing industry where both sides reached agreement on 4.7 per cent some time ago. The Mediators have already refused to approve this percentage; a final decision is expected to be given shortly.

AUSTRIA

Change in financial policy
Neue Zürcher Zeitung, Zürich, September 17, 1959, section 8 (in German)

Before his departure for Washington to attend the annual meeting of the International Bank for Reconstruction and Development, Mr. Kamitz, the Minister of Finance, issued a statement which points to a change in financial policy in 1960.

In years past, he explained, it was necessary to use budgetary expenditures in support of large investment projects in order to minimize the repercussions of the recession. In 1960, however, any extraordinary expansion in the economy will be checked by timely reductions in public investment. Funds in the extraordinary Budget, which comprises only investments, will partly be utilized for improvements in the postal system and the automation of the telephone network (76 million Schilling), for school buildings (140 million Schilling), for an automobile road Vienna-Salzburg (450 million Schilling), and for the Federal railways, including electrification (591 million Schilling).

The Socialist Coalition party has already voiced its violent opposition to this plan, stating that the new financial policy did not correspond to the official policy as announced last July and upon which both parties had agreed.

ISRAEL

Misleading stability
The Israel Economist, Jerusalem, August 1959, page 1

During the first seven months of 1959, the Israeli consumer price index has remained entirely stable; this after an average rise of only 2-1/2 per cent in the prices of consumer goods during 1958. One might be forgiven for assuming that the inflationary pressures operating in the Israel economy have been checked. Yet this is far from being the case.

The main factor responsible for the measure of stability achieved was one over which the economy has no control — the international price level. Israel being a state with a relatively very large import surplus, a decline in world market prices is markedly advantageous. During 1958, these prices were some 7 per cent lower than in 1957, and the first half of 1959 witnessed a further -- albeit very slight -- fall. These developments enabled manufacturers to pay less for

their raw materials, despite the higher duties imposed by the Government; production costs on the whole declined, a 6 per cent increase in average wages being offset by higher productivity.

All this, however, fails to reflect certain other tendencies in the economy which are likely to revive inflation unless they are energetically dealt with soon. The most important of these is the rise in consumption. Private consumption rose by more than 11 per cent in 1958, and even on a per capita basis the increase was nearly 7-1/2 per cent. This evident rise in the standard of living absorbed some three-fourths of the additional resources available to the economy from the increase in the national product and the larger volume of imports. The trouble with this sort of trend is that it is very difficult to reverse when circumstances change. And circumstances are already beginning to show signs of changing. The international price level appears to have reached a temporary nadir, and future months might well see it rise. The effect obviously will be inflationary, since the convenient period of declining import prices has not been sufficiently exploited to create facilities for the production of import substitutes.

In the past, inflation in Israel was caused as much by the cost as by the demand side. Today, the stage is being set for an inflation entirely due to excessive demand at the prevailing price level. The dangers of this are obvious and must be clearly guarded against. Yet unfortunately, just at the time when temporary stability should have enabled the introduction of a number of necessary economic reforms, the latter are being made utterly impossible by the forthcoming election and the atmosphere inevitably created by it.

No political party in Israel has yet found the courage to come to the electorate with a program including the suspension of the wage-index link or higher indirect taxes on consumer goods in general demand. These two measures are interdependent, and it will be difficult to find a solution to the Government's fiscal problems unless they are adopted. At the same time, their effect on demand cannot be clearly assessed. Consumption is likely to decline somewhat, however, and this could enable the diversion of a greater proportion of the national resources to productive investments.

If a policy of the kind mentioned above is applied carefully, it might be possible to reduce consumer demand while simultaneously increasing Government revenue. But today it seems that, far from being applied carefully, it is unlikely to be applied at all. Secondly, the price structure is being distorted by varying premium rates on exports and on foreign investment capital, as well as by subsidies to certain branches with high production costs. These distortions had better be abolished. In this case, the election is probably acting as a brake in a different manner: the Government may be contemplating to deal with this issue, as well as with the more fundamental problem of improving Israel's terms of trade, by an attempt to stabilize the value of the Israeli pound at a lower level. This can likewise not be done before the poll is counted.

The above remarks should not obscure the very real achievements of the Israel economy in the sphere of expanding production and productivity during recent years, while maintaining a high level of employment under conditions dictated by immigration. But time until the termination of the Reparations Agreement is running short, and it is a pity that so much of it is being wasted for reasons that have nothing to do with economics.

BURMA

Foreign capital bill
The Financial Times, London, September 29, 1959, page 5 - From Rangoon

One of the most promising Bills put before the Burmese Parliament is the Investment Bill, which has been passed by the Chamber of Deputies. For a number of years Burma's politicians have wanted an Investment Bill to attract foreign capital. It has always remained a vague promise and nothing more.

The present Bill is hardly more than an outline and cannot be properly judged until the committee-to-be has issued its rules. One of the most important clauses guarantees that no investment will be nationalized within 10 years of its inception. It also allows the President of the Union to extend the period of immunity a further 10 years. This clause is not clearly phrased, but senior Government officials have stated that immunity for 20 years can be granted at the outset and not merely as an extension after the first 10 years.

The Government had to fight hard against opposition, especially from the Communist N.U.F. (National United Front) to get the draft accepted without crippling conditions which would have virtually nullified its worth in the eyes of foreign investors.

AUSTRALIA

Investment impact
The Financial Times, London, September 30, 1959, page 5 - From Melbourne

Australian industrialists are becoming concerned with the impact of the growing volume of foreign investment which in the past financial year supplied 9 per cent of total funds for investment -- by far the highest share in recent years. Only two years ago it was 4.8 per cent.

Some of these problems raised by foreign investment are being examined officially. These include the over-all capital requirements of industry, exclusive of Australian shareholders, and export restrictions imposed by manufacturing franchises. An indication of Government thinking was given recently by Mr. Harold Holt, Federal Treasurer, who was reported as saying that Australia had now an adequate supply of foreign capital for the development of private industry, although it was still short of funds for Government development projects. The most remarkable feature of the past year's inflow has been the growth of portfolio investment which is estimated to have reached about £A 20 million ($44.8 million). This represents a trebling in four years and accounts for almost one-quarter of the total increase in private capital inflow last year.

It is true, however, that private foreign investment contributed far less towards recovery in the balance of payments than was supposed a few months ago. The total was £A 40 million less than the annual rate of £A 186 million indicated by earlier estimates. The main contribution came from export earnings and on that account it was more soundly based. However, the estimates must be treated with caution as, beyond the item for Government loans, which rose by £A 16 million, the only figure which can be stated with any certainty is that for retained profits which showed no change. It is probable that when the remainder is analyzed, some will prove to reflect lags and leads in payments rather than true investment.

At all events, the magnitude of foreign investment has been sufficient to disturb manufacturers who see real dangers of over-capitalization in some major industries and want orderly planning of development. Manufacturers are no doubt actuated partly by self-interest in suggesting other industries into which foreign investment might be channelled to mitigate excessive competition and over-capacity in some types of production. At the same time there are misgivings in some official quarters about the wisdom of costly duplication of plants, particularly where this investment involves heavy outlays of foreign exchange. However, it is doubtful whether exchange control or import licensing would be used deliberately as a means of directing industrial growth.

Nevertheless, capital demands, both private and public, must remain high to provide employment for the big expansion in the work force during the next decade. The indications are that foreign investors will continue to make an important contribution to Australian development. While higher interest rates in North America and the removal of political uncertainties in the United Kingdom could lead to some temporary movement away from Australian securities, there is a strong belief that investment in Australia has set in as a long-term trend.

ARGENTINA

Internal debt - 1958
Review of the River Plate, Buenos Aires, August 21, 1959, page 17

The national public debt at the end of 1958, comprising long-term and intermediate-term internal borrowing, totalled 93,148.1 million pesos ($1,414 million). This compares with a total of 67,017.6 million at the end of 1957, or an increase of 39 per cent. Some 60 per cent of the outstanding balance of long-term indebtedness was accounted for by 55,821 million pesos in Social Welfare Bonds. The other chief item was the outstanding balance of 3 per cent Crédito Argentino Interno Bonds which totalled 25,699 million pesos. In the intermediate category the only item was 1,000 million pesos in Treasury Bonds, compared with 490 million at the end of 1957.

CANADA

Big payments to United States add to Canadian deficit - By Leslie Wilson
The Financial Post, Toronto, September 26, 1959, page 3

This year Canada may chalk up the biggest balance of payments deficit in its history. The deficit could exceed the record $1,400 million deficit in the boom year of 1957. The key difference is that in 1957 Canada was moving out of a boom into a recession; now the process has been reversed. Canadian indebtedness in the last six months of 1959 will far exceed that of the corresponding period in 1957. The net result is a probable deficit of $1,500-$1,550 million for 1959.

Throughout the 1955-57 boom the official view was that these huge payment deficits would correct themselves when the flood of capital investment tapered off. This view was exploded when Canada added $1,100 million to its indebtedness in 1958, a recession year. Now it is clear that because of the large foreign investment Canada is likely to have these deficits for many years. The $837 million deficit for the first half of 1959 can be broken down into two parts: $355 million arising from an import surplus and $482 million being due to the fact that Canada received more services than she supplied. The most important of these services is the use of capital.

The trade deficit, which was $160 million in the first quarter, might run from $550-$600 million by the end of the year, as against $579 million for the peak deficit year of 1957. The deficit on non-merchandise items is likely to run to $950, because the biggest of these "invisible" items -- dividend and interest payments to non-resident (mainly United States) individuals and companies -- is climbing fast. These net dividend payments totaled $323 million in 1955, $381 million in 1956, $444 million in 1957, and $433 million last year (the recession brought small relief); in the first half of 1959, these payments amounted to $213 million. From 60 to 70 per cent of these payments are made to United States residents. They are likely to increase rather than decrease. In the second quarter of 1959, direct foreign investments in Canada reached a record high, $180 million. Four-fifths of this amount came from the United States, and most of it went into oil and mining. Payments by Ford Motor Company to buy up Class A and B shares of Ford Motor Company of Canada made up about $40 million.

SHORT NOTES ON CURRENT ARTICLES

Netherlands - Securities exports

Nederlandsche Handel-Maatschappij, N.V., Amsterdam, Quarterly Review, II, 1959, pages 3-9. This article discusses the impact of the export of Dutch securities on the national economy. These exports have been an important factor in the balance of payments since 1952 and reached a peak in 1958. In reply to criticisms that together with securities sales abroad also go interest and dividend payments, the article points out their advantages. For one thing, the export of securities is "one of the natural consequences of the Western world's growing integration." For another, if the proceeds from these sales are utilized not for increasing consumption -- in which case they would contribute to the inflationary trend -- but for constructive purposes, for example, to cover capital exports, there will be no detrimental effect on the economy. The article contains several tables which, among other data, give figures on national capital account for 1952-58 and itemized balance of payments figures from 1952-1958.

Amendments to the statutes of the National Bank of Belgium

National Bank of Belgium, Brussels, Bulletin, August 1959, pages 89-97 (in French). On July 29, 1959, an extraordinary meeting of the shareholders of the National Bank of Belgium approved certain proposed amendments, as set forth in the law of June 19, 1959, to the statutes of the Bank and to the Fonds des Rentes (Securities Stabilization Fund) as well as provisions concerning membership in the International Monetary Fund and the International Bank for Reconstruction and Development. The most important amendments are the following: 1) The life of the Bank is extended until December 31, 1988. 2) The King is authorized to consent to the proposed increase in the Belgian quota in the IMF and the Government to subscribe to the increase in the authorized capital of the IBRD. 3) The Bank is to take over certain rights and obligations arising from membership in the IMF and the IBRD. 4) The law permits the Fonds des Rentes to extend its open-market operations to the short-term market. -- The article also contains the reasons for the modification of the law as explained by M. Ansiaux, the Governor of the National Bank of Belgium, before the extraordinary shareholders' meeting.

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GREAT BRITAIN

The spotlight is on wages policy - By Lombard
The Financial Times, London, October 12, 1959, page 3

The first big task in the economic field that Mr. Macmillan's new Government will have to tackle if it intends to fulfill its election pledge to maintain a sound and prosperous Britain is the creation of a new machinery for influencing the behaviour of wage rates.

During the past year or so the United Kingdom authorities have managed, by slowing down economic activity as a whole to strengthen resistance to the trade unions' demands for higher pay to a sufficient extent to keep wage inflation down to the point at which it could be more or less cancelled out by the disinflationary impact on the economy of the sharp improvement in the terms of trade. But these favorable circumstances clearly cannot last. Though the Government's new spending

programs are cast on more modest lines than those of the Labor Party, it will still have to aim at an expansion rate of several per cent per annum if it is to be able to implement them without embarrassing itself in other directions.

But in any case there would be no point in slowing down activity to a materially slower pace for the sake of trying to find a lasting solution for the problem of the wages-prices spiral -- and the inflation problem that this phenomenon generates. For experience in the industrialized countries during the 1950's clearly shows that this simply does not help in the long run. Since 1950 the United Kingdom has achieved an annual rate of economic expansion of about 3 per cent. Against this, the United States figure comes out at about 4 per cent, and the Canadian one at 6 per cent. France can point to one of 10 per cent, Germany to one of about 13 per cent, and Japan's figure is of the staggering order of 30 per cent. Yet, although the United Kingdom's advancement performance has been inferior to that of all these countries, her wages-prices spiral record has been materially worse.

Thus in Britain wages have risen during the 1950's almost three times as fast as production. In all the other countries mentioned the rise in wages has been less than twice as fast as production, and in some of them -- notably Germany and Japan -- barely half as fast. And whereas in all these other countries the cost of living has risen more slowly than output, Britain's has risen twice as fast. The implication is that you can suffer more severely from wage inflation at a slow rate of economic growth than at a materially faster one, which is not at all surprising, bearing in mind that at a high rate you will at least have goods coming forward in appreciable volume to neutralize the inflationary impact of unduly large advances in wage rates. Provided your general economic policies are so designed as to ensure that conditions of overfull employment do not develop, the wise course is to seek the answer for the wage-inflation threat elsewhere. And this is what the United Kingdom authorities should do if they find -- as they may well do -- that the trade unions are not going to be discouraged from pressing for all-round wage increases of excessive amount simply because they have been deprived, for the time being at all events, of the argument that higher rates of pay are needed to compensate wage earners for rises in the cost of living.

But where should they look? The experience of other countries that have tried to devise methods of controlling wage movements centrally with an eye to preventing wage-inflation demonstrates that there is no simple answer to this question. And, indeed, it is obvious that however successful the authorities might be in demonstrating to the trade unions that it would be in the interests of their members as well as of the country as a whole to work out a method of so controlling wage rates that the country could maintain a fast rate of economic growth without perpetually suffering from inflation, it would initially be necessary to be content with something that would be much less than perfect.

The most sensible thing would be to aim at establishing a broad link between the country's production achievements and wage movements to insure that, over the economic field as a whole, the creation of additional spending power is always matched by additional opportunities for spending. It will, of course, be said that the negotiation of wage rates is such a complex business that a simple rule of this kind would not work. But it can hardly be denied that most wage settlements during the past few years have been determined by an equally simple rule -- that the fact that one major union has been granted an increase of the order of, say, between 5 and 10 per cent on cost of living grounds, or for some other reason, entitled all others to the same.

So long as the country's labor force is organized for wage negotiation purposes as it is at present, it is quite impracticable to aim at the ideal — the determination of wage rates in particular firms by the productivity of workers within those firms. Given that the bargaining has to be done on a national basis, the sensible starting point is the productivity of the labor force as a whole. And there is no obvious reason why a system that ensured that wage earners were rewarded in proportion to their extra effort should not appeal to the trade unions if they are as fair-minded as they claim to be.

SOUTH AFRICA

Upswing in the economy
The Financial Times, London, October 7, 1959, page 5 - From Johannesburg

The first real signs of improvement in the Union's economy have now become apparent. The trade reviews of the commercial banks report a general upswing largely based on substantial orders from wholesalers. Retail trade during the month of September is reported to have been quiet though the latest statistics available, for July, reflect a slight improvement in the turnovers in the Metropolitan areas over July 1958 and June 1959. There has been no evidence since to suggest this has not been maintained. But whether the liveliness in the wholesale trade is seasonal with the approach of summer and Christmas, or actuated by retailers' re-stocking as a result of cleaning out their inventories, is not certain.

But the belief is that a real revival has begun. The activity of the packaging industry in which maximum overtime is being worked and where, in some cases, new orders have had to be turned down until 1960, is encouraging. The industry is regarded as a key indicator.

While the retail trade complains that "money is still tight," the Quarterly Bulletin of Statistics issued by the Reserve Bank shows that there was a net increase of £ 21 million this year in the liquid assets of the public with the banking sector, as compared with a decline last year. At the end of July, the public's liquid assets stood at the record figure of £ 738 million, and the commercial banks' ratio of liquid assets to liabilities at 48 per cent. These figures are interpreted as reflecting a reluctance both to invest and to spend, although an increase in the monetary volume of activity was noted in the second quarter of the year. The hesitation by the public to spend may well be influenced by the energy of the Receiver of Revenue who has speeded up the issue of income tax assessments this year by almost two months.

FRANCE

Growing influx of foreign capital
The Times, London, October 14, 1959, page 18

France's bidding for foreign investments has been increasingly successful in recent months. Since last year's franc stabilization, the influx of capital from various European countries has been gaining in momentum. A report to the Economic Council shows the statistical evidence of this trend. According to this report, foreign funds evaluated at $220 million have been invested newly during the first six months of 1959, 60 per cent of this amount having been used to purchase leading French shares and stocks on the Paris Stock Exchange.

Not all of these funds, it must be said, are actually of foreign origin. During the many years of French monetary inflation French capitalists succeeded in transferring or in holding important amounts of capital abroad. Part of this "flight capital" has now been repatriated. This explains why almost 50 per cent of the total investments has returned from Switzerland, where French capitalists have been banking with Swiss financial institutions. The dollar zone -- United States and Canada -- rank second on the list with a total investment of 25.2 billion francs. This amount includes a certain number of American participations in French industry, especially in petroleum and chemical plants.

Perhaps more important than the actual growth of foreign investments is that the trend of international capital investments has apparently now been reversed in favor of France. French capitalists who used to shift clandestinely part of their liquid funds abroad or managed to keep part of their export earnings in foreign countries are now reversing these practices. As a result, the French gold and foreign exchange reserves are now approaching the two billion dollar mark.

The first six months of the current year, moreover, must be considered as a kind of trial period for France's recent currency and financial reform. It has undoubtedly stood the test. Considerably larger amounts may be sunk into the French economy in the near future. Significant in this respect is the setting up of several investment trusts of European scope in which leading European banking institutions are participating.

The report to the Economic Council emphasizes the importance of channelling foreign investment capital to the purposes most useful to the development of the French economy. It proposes therefore that preferred treatment should be given to those foreign funds which are invested in accordance with the actual needs of the French economy. The French economic planning organizations, therefore, will be called upon to establish accurately the capital needs of the economy and the sectors in which foreign funds can be successfully employed as well as those in which such investments should be discouraged.

DENMARK

Policy on spending
The Financial Times, London, October 9, 1959, page 11 - From Copenhagen

The Danish Premier, Mr. H. C. Hansen, at the opening of the Danish Parliament firmly opposed the "new policy" proposed by the Liberal and Conservative Parties, and made it clear that "further increases of private spending must be kept within the limits set by greater production."

The main points in the program of the two opposition parties, which was adopted only recently, were tax reductions amounting to Kr. 800 million, and savings in Government expenditure of Kr. 400 million.

Mr. Hansen said that Denmark had so far enjoyed high employment and a steady growth in foreign currency reserves. He foresaw no immediate changes in this stability, but warned that conditions outside Danish control later on might influence the prices of raw materials in an upward direction to the detriment of Denmark's balance of payments.

SWITZERLAND

Gold reserves to be retained by National Bank
The Financial Times, London, October 12, 1959, page 7

The Swiss Government has rejected proposals that the gold from the large reserves of the National Bank be used for investment in the country's economy. The Government said the gold reserves stood at 8,307 million Swiss francs ($1,927 million). Under Swiss law, bank notes have to be covered by gold for a minimum of 40 per cent. Although the present reserves meant that the notes had a gold backing of 143 per cent, the National Bank had short-term liabilities of up to 2,828 million francs, it was stated. Another reason for keeping large gold reserves was that, in time of crisis, Switzerland was able to pay for raw materials and food in gold, the Government added.

HUNGARY

Output aims of Hungary
The Financial Times, London, October 8, 1959, page 5

Hungary aims to increase industrial output by 65-70 per cent over last year and agricultural production by about 30 per cent, under the Second Five-Year Plan. Collectivization of farming will be completed in "the next few years," according to the draft. Keynotes of the Plan are modernization, higher productivity, and the more rational exploitation of existing facilities rather than the building of new factories. Trade is to be expanded, mainly with the Soviet States and with underdeveloped countries. The building of houses will also be stepped up. The 1960-65 Plan is expected to be approved in general by the Communist Party Congress which meets on November 30.

UNITED ARAB REPUBLIC

Egypt increases premium on hard currencies
The Financial Times, London, September 30, 1959, page 5 - From Cairo

The premium accorded to tourists changing hard currencies at banks in Egypt is now 27.5 per cent. This is the figure it was at prior to September 1, 1958, when it was cut to 17.6 per cent, although importers buying foreign exchange from the National Bank continued to pay a premium based on the former level. The reversion to the higher premium for hard currencies is one of the measures designed to bring the official exchange rate of the Egyptian pound nearer to the open market rate in the hope, apparently, that this will lead to a gradual strengthening of the pound vis-à-vis other currencies.

PAKISTAN

Budget of the central Government for 1959-60
State Bank of Pakistan, Karachi, Bulletin, July 1959, pages 10-12

The Budget of the Government of Pakistan for 1959-60 estimates revenue (at the existing level of taxation) at Rs. 154.08 crores and expenditure at Rs. 151.45 crores, leaving a surplus of Rs. 2.63 crores. This compares with revised estimates

of Rs. 153.83 crores for revenue and Rs. 143.54 crores for expenditure for the year 1958-59. No new direct taxes have been proposed; instead, a number of reliefs have been provided. With regard to indirect taxation, the exemption limit of Rs. 60,000 for sales tax has been reduced to Rs. 36,000, and several other minor changes have been introduced.

Expenditure on capital account during 1959-60 is expected to be Rs. 179.74 crores, a decrease of Rs. 9.09 crores over the estimate for 1958-59, whereas income on capital account is estimated at Rs. 172.90 crores. Larger appropriations have been made for expenditure for railways, civil aviation, civil works, and food storage, whereas outlays for industrial development and irrigation have been reduced. The capital account Budget is proposed to be financed in part by foreign aid and foreign loans which are expected to provide Rs. 50.93 crores and Rs. 50.10 crores, respectively. The deficit of Rs. 6.84 crores will be met by drawing down the cash balance, so that the year is expected to close with a cash balance of Rs. 4.34 crores as compared with the opening balance of Rs. 11.18 crores. [One crore = 10,000,000 rupees; one Pakistan rupee = 21 U. S. cents.]

JAPAN

Restriction of bank loans planned
The Financial Times, London, September 17, 1959, page 5 - From Tokyo

The Finance Ministry and the Bank of Japan have taken steps to dampen the rapidly expanding Japanese economy by indirectly restricting bank loans. The method adopted was to enforce a reserve deposit system on private banks as from September 11. The ordinances providing for such a system were drafted in May 1957, but they had been kept in abeyance.

The Japanese economy has, in the view of leading Japanese financial experts, become so "overheated" that some monetary action was necessary. Since the beginning of this year, it is pointed out, manufacturing production has been rising at an average rate of 5 per cent per month. This admittedly involves the recovery of the steel industry from the 1958 recession and extra production in some fields to meet booming exports, but it has also encouraged manufacturers to begin investing in capital equipment at a rate approaching that of 1956-57, which resulted in a $500 million foreign exchange deficit for the first half of 1957.

Finance Minister Eisaku Sato has said that the new measures in no way represent the imposition of a "tight money" policy. Rather, he says, they are "a preventative step against anticipated excesses in economic activities." Under the new system, Japanese city banks with more than $56 million on deposit will have to reserve 1.5 per cent of demand deposits and 0.5 per cent of fixed deposits. Banks with deposits of less than $56 million will have to reserve 0.75 per cent of demand deposits and 0.5 per cent of fixed deposits.

Since private banks have been trying to increase their reserve deposits over the last year or so, the new requirement is expected to have more a psychological than a practical effect. But if the new move is not effective, the central bank has already said that it will consider raising the official Bank Rate.

The measure is particularly interesting at this time because it reinforces the feeling in many Japanese financial circles that the Government is strengthening its

control over the nation's economy through financial measures rather than trade or tariff measures. This approach will be made easier by a revision of the law governing the Bank of Japan which has just been made public. It is believed to be in line with the Government's attempts to centralize Japanese financial policy to a far greater extent than it is at present. Frequently, economic policies put forward as official Government policies are frustrated by conflicting measures from such agencies as the Finance Ministry and the Economic Planning Agency.

By gaining more control over the Bank of Japan, Government officials say, the Government will be able to coordinate economic measures far more effectively than is possible at present. The proposed draft revision of the Bank of Japan Law is now being studied by a special committee drawn from both Government and private financial circles. It is expected to come before the Diet in the next ordinary session beginning in December.

Fluctuating dollar-yen rate
The Financial Times, London, September 14, 1959, page 7 - From Tokyo

The Japanese Finance Ministry has announced that the price of dollars will henceforth be allowed to fluctuate by 0.5 per cent above or below the official exchange rate of 360 yen to the dollar. There will be no limitations on future quotations. The announcement is regarded in Tokyo as being mainly window-dressing for the visit of the Finance Minister, Mr. Eisaku Sato, to Washington to attend the conference beginning September 28.

Japanese financial authorities are aware of the growing pressure for easier monetary restrictions, and want to be able to present some concrete evidence that Japan is prepared to contribute to the world tendency. But it is believed that the move will have little effect on the foreign exchange market, since fluctuations in the rate are still limited, and yen-dollar exchange currency is exceptionally stable.

VENEZUELA

Finance - Deficit for fiscal 1958-59
Bank of London & South America, London, Fortnightly Review, Sept. 12, 1959, p. 906

Revenue and expenditure of the National Treasury during the fiscal year ending June 30, 1959, totalled 5,306 million bolívares and 6,241 million, respectively. The result is a deficit of 934.2 million bolívares ($278.9 million), compared with an adverse balance of 557.8 million bolívares in 1957-58. This year's deficit is expected to be covered by a short-term public loan and by Treasury funds which amounted to 857 million bolívares at the end of June.

CANADA

It's not all rosy for us in the sixties
The Financial Post, Toronto, October 10, 1959, page 1

In the last two heady decades, a great many Canadians have been intoxicated by the contents of two bottles: prosperity present and prosperity they expect still to come. But there is good reason to believe that the startling advances made since 1939 in, for example, real per capita income will not be repeated in the next two decades. Since 1939 it climbed more than 60 per cent -- and note that real per capita income provides for price increases; it's clear gain.

One of the facts of economic life is becoming more and more obvious: there is now a surplus of just about every commodity produced in the world, a surplus which, short of a war, will threaten production and prosperity at least throughout a good part of the sixties. For Canada as a major exporter of raw and semi-finished goods, this has already meant slower growth in oil sales and in newsprint exports. Nickel production so far this year is down 5 per cent, copper output is off slightly. Foreign sales of such items as lead, zinc, and aluminum are down. No doubt there will be some improvement in the sales of these products in the sixties, but few executives in these industries expect to be able to boost capacity on a scale similar to that of the last ten years or so.

And there is another very real threat to any future production aimed at international markets: the stockpiles of so-called strategic materials in the United Kingdom and the United States. When both countries recently unloaded some rubber, world prices cracked sharply. In the United States alone there is an $8 billion stockpile capable of producing economic indigestion on an international scale for a long time to come. Russia, as it has demonstrated with aluminum, can pour quantities of resource materials on the market whenever it chooses and at whatever prices it chooses.

No thoughtful observer is going to be stampeded into crying ruin. But it is time to realize that the 1960's are going to be vastly different from and, we expect, tougher than the 1940's and the 1950's. The postwar era was characterized by international shortages. That is now over. If businessmen and government fully realize that we are entering a period of worldwide surplus, there will be fewer mistakes, fewer disappointments, and a greater array of ideas ready to cope with the urgent problems of keeping a competitive edge in exports.

SHORT NOTES ON CURRENT ARTICLES

Annual British Banking Survey

The Statist, London, September 5, 1959, Supplement, 60 pages. Under the title "The shape of monetary policy to come" The Statist is publishing several articles one of which, in the light of the Radcliffe Report, discusses the stability of the pound sterling. Others describe the changing functions of the commercial banks which are being adapted to meet the present-day requirements of their customers. Banking trends in Scotland and Ireland are also reviewed, and one of the articles deals with the problem of instalment buying. As usual, the Supplement contains many tables with selected statistical data on the commercial banks in the United Kingdom.

The Indian payments crisis - By A. O. Kruger and N. K. Choudhry

Eastern Economist, New Delhi, August 7, 1959, Blue Supplement, 12 pages. The reason why this study is of particular interest is the careful manner in which an American and an Indian scholar have presented the underlying data. The study points out that much greater care must be exercised in the planning of India's Third Five-Year Plan than was done for the two previous plans. The article touches briefly on the background for the first two plans and points out the gap between expectations and achievements. It discusses the factors leading up to the balance of payments crisis and calls for more satisfactory handling of the problems involved. There is great need for more complete and up-to-date economic data and for coordination between the public and private sectors, the requirements for which must be carefully evaluated. The article contains also a number of statistical tables.

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No. 1760
October 30, 1959

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IMPORTANT NOTICE

It has been decided to discontinue the publication of the WEEKLY REVIEW OF PERIODICALS; the issue for October 30 is therefore the last number to appear. A Table of Contents for 1959 will be prepared and distributed within a short time.

We wish to thank you for your interest in the past and to call your attention to the fact that much of the same material is covered and available in the INTERNATIONAL FINANCIAL NEWS SURVEY, published by the International Monetary Fund, 19th and H Sts., N.W., Washington, D. C., which is distributed free of charge.

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America at 5 per cent
The Economist, London, October 10, 1959, pages 159-160

On a recent evening the ticker in Times Square spelled out a message which read: "Treasury issues new note at 5 per cent -- highest interest in thirty years." This bold lead from the U.S. Treasury deserves to be taken notice of by the monetary authorities in Britain, who hitherto have doubted the possibility of shaking a market out of its weakness by offering gilt-edged above the market rate.

Interest rates have been rising sharply for many months in the United States. Hitherto the process has been seen simply as a result of the Administration's monetary difficulties, but now steps, notably by Congress, will have to be taken before the Administration has surmounted its financial difficulties. The Treasury's initiative helps to set those difficulties in perspective. The central point is that in the United States the market in Government securities, including Treasury Bills, is a free market. Except at quite rare moments, official funds are not available to act as a shock absorber; the Treasury has to meet the market's terms all the time. Nor does the size of America's national debt seem so formidable from a European point of view as it does to many American bankers and security dealers. The Federal debt held outside official agencies is well under one half of one year's national income; in Britain, the debt is well above our annual national income.

The American financial problem now is not, as is widely supposed, one of governmental overspending or an excessive burden of debt. It is the much narrower and more technical problem of a lack of balance in the maturity of the debt, which was highlighted and exacerbated in the summer when Congress refused to raise the ceiling of 4-1/4 per cent on new issues of bonds. This ruled out any new Treasury borrowing at medium- and long-term. The concentration in the short-term market of Treasury demands to meet its seasonal needs and refinancing had its predictable effect. The discount rate on 3-months' Treasury Bills shot up from 3 per cent at the start of August to 4.17 per cent by mid-September, while rates on 6-months' Bills and on Treasury notes have risen above 4-3/4 per cent. The movement carried with it the discount rate of the Federal Reserve and the prime lending rate of the big banks, which is now at 5 per cent. The recent issue of $2 billion of 5 per cent notes at a life within two months of the five-year limit has relieved the market in Treasury Bills in corresponding measure, and bill rates have duly turned downward.

The huge increase in the supply of Treasury Bills, from $22.4 billion in mid-1958 to $37.1 billion at present, has been accompanied by a notable rise in bank deposits, which would be inconceivable in Britain. In the past year, increasing pressure by the Federal Reserve has obliged the banks to unload bills and other Government securities to finance the surging demand for loans. Corporations and other investors have taken up many more bills at the increasingly attractive rates; thus reliance by the authorities on bill finance has not, as it would have done in Britain, swollen the credit base and the money supply.

But the Treasury's reliance on short-term finance does build up a potentially dangerous volume of liquidity in the economy. Its biggest worry is the alarming increase in securities maturing in 1-5 years, from $39 billion to $57 billion since mid-1957, the only group in which the holdings of commercial banks exceed those of other investors. The big rise in the volume of these maturities has led to a hump in the yield curve. Only Congress can remove that hump.

America's present funding problem is to some degree a legacy of the recent recession. Monetary management in a recession faces a difficult choice. This is the time when the market is most receptive to offers of long-term bonds; and also the time when, in order to stabilize the economy, the market should be kept liquid and interest rates should come down. Even within the confines of debt management in the narrow sense, there is a conflict; finance through medium- or long-term securities will ease the problem of refinancing when recovery comes, but it will intensify the book losses suffered by investors when official policy turns again to restriction and higher rates. Investors burned their fingers badly enough on the 7-year bond issues at 2-5/8 per cent in mid-1958, on the eve of the turn. As the Treasury and the Federal Reserve point out in their admirable study of this experience, summarized in the Federal Reserve Bulletin for August: "The Treasury's problem of maintaining a debt structure adaptable to changing circumstances without itself contributing to instability of the economy is a formidable one."

The real criticism of the Treasury is its failure to sell long-term securities before the recession began. As a result, over 70 per cent of the marketable Federal debt outside official hands today matures in less than 5 years, compared with one-third in Britain. The Treasury now seems prepared to make its long-postponed assault. The plan it has in mind is "advance refunding," or the conversion to higher coupons and later maturity dates of securities not yet due for redemption. In the U.S. market today, investors could be attracted to switch only by the offer of yields of 4-1/2 per cent or more; since the Treasury has agreed to observe the spirit of the law and not to offer securities at big discounts, it can do nothing before Congress lifts the ceiling of 4-1/4 per cent. Will Congress budge? There are important reasons for hoping for a change of mind in the session beginning in January. The Federal Reserve has stood firm against the political pleas that it should provide support to the long-term market. "Bills only," with the whole effect on the supply of bank reserves, remains the policy. Congress can now see with its own eyes that its stand against the monetary tide is costing the taxpayer not less but more. The Treasury has stated explicitly in introducing its present issue that a lower coupon would have been possible for a term of more than 5 years. The potential of the long-term market may be limited in volume. The Treasury's basic need is not cash; it is a rearrangement of its existing debts.

What then is the prospect for interest rates in the United States? Obviously if Congress gives the go-ahead sign, there will be a fall in prices of long-term securities, yields on which range at present from 4-4.3 per cent. In the same measure, the short-term market would be relieved. If there are reasons for believing that, with the cooperation of Congress, rates in the short-term market may have reached the top, there are equally impressive reasons for believing that the general monetary pressure will be maintained. If the steel strike continues much longer, the fall in earnings may throw the Budget out of balance, and the Federal Reserve might not feel justified in easing its policy to accommodate the additional financing.

Mr. William Martin still has fears of (though he does not predict) an "explosive boom" resulting from an excessive concentration of capital investment. That, he feels, might call for all measures, including the discarded regulation controlling the terms of consumer credit. Mr. Martin sees the monetary policy over which he has the responsibility as subordinate in importance to debt management and wages policy. But he has always in the past shown great determination in using his instruments as a balancing counter. His actions in coming months will be largely decided by the negotiators of the steel industry and the finance committees of Congress.

GREAT BRITAIN

Travel allowance virtually freed
The Financial Times, London, October 20, 1959, pages 1 and 10

Currency restrictions on overseas holiday travel will be virtually abolished by November 1. From then on, anyone will be able to obtain automatically up to £ 250 a year ($700) in any foreign currency, including dollars, and get more on application to the Bank of England. The latter requirement is intended simply as a check against the unauthorized export of capital. This step, announced by the Treasury, means that another move has been taken towards making sterling fully convertible within the meaning of Article VIII of the International Monetary Fund Agreement. The abandonment of the remaining discriminatory quotas on dollar goods is the only major step which has still to be taken before full convertibility in this sense is achieved.

For the first time for over twenty years, British tourists will be able to spend as much money abroad as they may wish to and can afford. No longer will it be necessary to weigh anxiously and carefully the respective recuperative merits of a skiing holiday in the Alps against a cultural trip to Florence, a gastronomic tour of France, a lazy time at the Riviera, or a musical pilgrimage to Salzburg or Bayreuth. Anyone fortunate enough to have both the time and the cash can in future have the lot. The abandonment of this wartime control is in itself welcome; even more welcome is the fact that the authorities have recognized that sterling is now strong enough not to need it any longer.

The saving in foreign exchange which the travel allowance gave can at no time in the last few years have been very great and the cost of abolition should be correspondingly small. In 1959 more than 2 million persons will probably cross the Channel and a fairly substantial number will have gone further afield. However, the overwhelming majority spend considerably less than the £ 100 which they have been allowed hitherto. The average lies somewhere around £ 55 per person. Where the travel allowance has really made a difference in the past few years is for journeys to the United States and Canada. Travel in those countries is not cheap and the amount a British visitor could spend bore no relationship to the cost of getting there.

Thus one of the results of the lifting of the limit is that yet another element of the discrimination which has been practiced against the dollar since the end of the war has been eliminated. Not only that, but there now remains only one more step to be taken before this country in effect becomes fully convertible within the meaning of Article VIII of the IMF Agreement: the abandonment of such discriminatory quotas on dollar goods as are still applied. Once this has been done, and there is every reason why it should be done soon, the final remnants of the defense structure of a besieged Britain will have been razed.

We shall then be back to the stage where any inhabitant of the United Kingdom can travel where he likes and spend his money how he likes (though capital transfers will still be controlled). Slowly we have been working our way back to that happy state of affairs when the customer is always right, whether he be holidaymaker or consumer. This is not only pleasant for the consumer, it also heightens the degree of competition to which those that cater to the consumer's needs are exposed. Make it easier for Britons to travel abroad and British tourist facilities are bound to improve. Going abroad on holidays could be one way of stimulating the British tourist industry to attract yet more foreign visitors to this country.

NEW ZEALAND

Discount rate lowered by 1 per cent
The Financial Times, London, October 19, 1959, page 1 - From Wellington

The New Zealand Reserve Bank has announced a cut in the minimum discount rate from 7 to 6 per cent, effective October 19. This, the Bank states, does not denote a current credit policy change, but is intended to reflect the improvement in economic conditions during the past year. The rate was increased from 6 per cent to 7 per cent in October 1955.

FRANCE

French investment higher in 1960
The Times, London, October 10, 1959, page 13

Investment by State-owned companies will increase 6 per cent in 1960 under a program approved by the French Ministry of Finance. Total investments are scheduled to reach 6,595 million new francs /one new franc is equivalent to 100 old francs or 20.3 U.S. cents/, compared with 6,194 million francs in 1959. This total will include 2,965 million to be spent by the French Electricity Board (against 2,740 million previously) and 1,300 million for French railway companies, as compared with 1,135 million francs. In contrast, expenditure by the French State-owned oil and natural gas companies will fall to 251 million from 441 million francs, as the bulk of the work for exploitation and distribution of the Lacq natural gas deposit is now completed.

GERMANY

West German Bank Rate raised to 4 per cent
The Financial Times, London, October 23, 1959, pages 1 and 10 - From Bonn

The Bundesbank has raised the West German discount rate from 3 per cent to 4 per cent, effective October 24, and cleared the way for the Government to borrow DM 250 million ($60 million) on the capital market next month.

The Central Bank Council had considered it necessary to damp down business expansion, not least because of the labor shortage. The Government loans would be floated in mid-November at an interest rate in conformity with market conditions then obtaining. This makes a 6 per cent loan likely at an issue price very close to par.

Besides raising the discount rate, now at its highest since January 1958, the Bundesbank also applied the credit squeeze by increasing by 10 per cent the minimum reserves the banks must deposit with the central bank. This step is expected to "freeze" about $140 million which would otherwise be available for lending operations. Bill and bond rates will also be raised in proportion.

As a result of these measures clarity should now return to the market in fixed-interest securities, which has been confused and weak for months. In acting to dampen expansion the Bundesbank must have been influenced by the fact that consumption, as reflected in retail turnover, is not keeping pace with the increase in production. The index of production for industry as a whole in September was

255 (1936 = 100) as compared with 238 in September 1958. In the consumer goods industry it was 236 as compared with 218 a year ago. At the same time industry as a whole has been receiving new orders from 10 to 15 per cent higher than monthly production. There is therefore reason to believe that there has been a scramble to build up inventories and to place orders as an insurance against future price increases.

One other consideration may also have influenced the authorities. Next month the Government is to raise a loan of DM 250 million as a first instalment of the funds which will be needed to bridge the budgetary gap. A reminder to the general public that the Government would do everything in its power to maintain price stability may therefore have been considered appropriate. Internationally the rise in the German rate should have little effect.

PORTUGAL

Portugal joins the IMF and IBRD
Neue Zürcher Zeitung, Zürich, October 3, 1959, section 9 (in German)

The Portuguese authorities have announced that Portugal has been accepted as a member of the International Monetary Fund and the Bank for Reconstruction and Development. The communiqué points out that as a rule negotiations take about three months before a country is accepted in these organizations. In view of Portugal's financial stability and its standing in the money market negotiations were brought to a close in less than six weeks. This fact proves the international esteem in which Portugal is held thanks to its financial policy, the favorable results of which are becoming more and more evident.

CZECHOSLOVAKIA

Czech goals in new Five-Year Plan
The Times, London, October 19, 1959, page 8

The Czechoslovak Government and the Communist Party central committee have directed that total production of the national economy is to increase by 50 per cent over the 1960 figure during the Third Five-Year Plan (1961-65). The official Ceteka news agency said that the main task under the Plan would be the development of the metallurgical industry. The biggest increases planned were in chemical equipment (214 per cent), plastics (226 per cent), and Diesel locomotives (413 per cent). In 1965 the working week will be reduced to 42 hours, and in mines to 40 hours, the agency stated. Personal consumption will go up by at least 30 per cent, and the national income by 42 per cent.

MOROCCO

New monetary unit
The Financial Times, London, October 19, 1959, page 1

The International Monetary Fund has made available a $25 million stand-by fund to Morocco to help establish the country's new monetary unit, the dirham. The dirham, introduced on October 17 with Morocco's 20.44 per cent currency devaluation, will equal 100 Moroccan francs. The stand-by fund can be used to stabilize the value of the dirham during a one-year period of transition from francs to dirhams.

An IMF statement said the new Moroccan currency amounted to a devaluation of 17 per cent from the previous official rate for the Moroccan franc. Explaining the apparent discrepancy between 17 per cent and 20.44 per cent, officials said the IMF used the gold content of the dirham against the gold content of the Moroccan franc. /The gold content of the dirham has been established at 0.175610 grams of fine gold. This makes the dirham equivalent to 19.7609 U.S. cents./

INTERNATIONAL COOPERATION

Wanted: a bridge - Britain's relations with the Six
The Economist, London, October 17, 1959, pages 211-212

Now that it is so comfortably back in power, Mr. Macmillan's Government cannot avoid taking a fresh look at the uncomfortable issue of Britain's relations with the Six. Since the plan for a little Free Trade Area became government policy earlier this year, the problem of relations with continental western Europe has been deliberately pushed into the background; yet it has remained obvious that those relations will tend to get worse if nothing is done to make them better. There have been indications that the Government now intends to address itself to the subject. Industry and both the major parties have supported the Stockholm group on the assumption that it is a first step towards a wider arrangement.

Part of the trouble is that the position in Europe will not keep still; while thought is being given to the division that exists, forces are at work to widen it further. For some time the "Europeans" across the Channel have been wondering how to give the Community a new impulse. In response to this feeling the Belgian Foreign Minister laid before his fellow ministers a series of proposals designed to provide the new impulse. Not all the ideas recently canvassed in Brussels, it is true, seem likely to be carried out. But one major development is definitely in the cards, that is, a shortening of the Common Market timetable, so that the whole process of evolving a single market will take six to eight years instead of twelve. Final decisions have not been taken, but plans drafted by the commission in Brussels envisage the creation of a single market by 1965, instead of 1970. The pace of integration in agriculture, and the whole institutional timetable, would similarly be quickened. The idea has the backing of all six governments.

It hardly needs saying that these plans, if they are carried out, will also hasten the separation of the two groups in Europe, if nothing is done to bridge the gap. The Stockholm group can speed up its plans, in turn, to keep pace with the Six, but that in itself will hardly solve the problem. When the European Free Trade Association first saw the light some people hoped that it would quickly prompt the Six to change their minds about the bigger Free Trade Area plan which they had, in effect, rejected. But the first response from Brussels has been a further demonstration of the will to push on alone; perhaps that was to be expected.

It is true that the European commission has just produced some new proposals on the Community's relations with the world at large. The ideas it put forward in March aroused little enthusiasm either inside the Community or outside. Now, after six months of internal argument, Professor Hallstein has won considerable support for some new ideas which do represent an advance. In the field of quotas in particular the commission has taken a big step forward. One of M. Monnet's special contributions to the European edifice was the appreciation that its success depended on American backing. Today the dollar is weaker than it was then, and the United States is pressing, very reasonably, for the abolition of discrimination against

dollar goods. In March the commission made a first response to the pressure of its critics in General Agreement on Tariffs and Trade by suggesting some enlargement of quotas on a world-wide basis. Now, with America in mind, it has proposed that quotas be gradually abolished altogether. The proposal has still to be acted upon: its realization depends on the governments. But when one recalls the violent theological dispute that raged over quotas at the turn of the year, the commission's new view, that quotas should go altogether, is indeed a welcome change. It is also a good omen for the meeting of GATT to be held in Tokyo, where the United States may perhaps lead the attack on quota discrimination in Europe. One of the crucial trading tasks of European governments in the next two years will be to respond to America's appeals and thus block the danger of an American slide back into protectionism. Here is a first move by the Community in the right direction.

Yet within Europe itself the trading problem remains unsolved and with no solution in sight. That was only too apparent at a recent seminar of editors in Brussels, at which one of the speakers was M. Georges Villiers, President of the French patronat (employers' associations), who gave a notable account of the attitudes of French industry today. He said much that was encouraging and gave warm backing to the Common Market. French industry, he explained, was at last competitive. Within the Community as well, one hears much to bear out the view that there has been a striking change in French attitudes in the past nine months. Competitive in price at last, French industry can look forward to quota liberalization with relative equanimity. For the same reason the French employers can afford to accept a shortened timetable for the Common Market.

Yet the French remain impenitent opponents of the idea of any sort of Free Trade Area. The European Free Trade Association has changed nothing there, M. Villiers remarked, and the commission of the Community evidently shares his view. The Community may be prepared to get rid of quotas on a world-wide basis, and to talk about tariffs in GATT as well; but at present those who make its policy show no readiness at all for a multilateral negotiation on a broader European basis.

The gulf between the two groups in western Europe, and between the two views of how to close it, thus yawns as wide as ever. In Stockholm the negotiations on the little Free Trade Area are going ahead, and the group has every chance of being set up next year. Once it is set up, there is no reason to believe there will be any clash or crisis to bring the disagreeable implications of the split in Europe to light and precipitate new thinking. The ill effects, economic and political, will be felt gradually, though now, it appears, at an accelerated pace. Yet the need for a bridge remains. As one of the Stockholm group committed to work with its six new partners, the British Government, when it seeks to settle its own relationship with the European Community, must now find an answer that fits all seven, too. But there is still no reason why all the same terms should apply to all the members of a wider grouping, why Finn and Austrian should necessarily be linked with the European Community under exactly the same formulae as Briton and Dane.

Apparently the Government does now intend to pay more attention to its relations with western Europe than it has in the past, as indeed it should. But good intentions, and a willingness to cooperate on an inter-governmental basis, are probably not enough to do the trick. The political assumptions and aims which are so exciting an inspiration to Europeans inside the Community are also a formidable wall against those left outside. It is difficult to see the present or any other British Government, so long as it cannot bring itself to share those aims, finding a complete answer to its European problem.

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